

3962 Change

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

December 6, 2021

First Section of the Tokyo Stock Exchange

Highlights

- Phase 2 of the 3-year mid-term plan (DJ2) kicked-off this fiscal term. 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). Contributing to the improvement of Japan's productivity and regional development are the company's SDGs and ESGs.
- The business is demonstrating stunning growth rate. Under the 15-year long-term vision, the company set a three-year target of 4.7 billion yen for the first phase of the 3-year plan (DJ1) when operating income was 500 million yen in the fiscal term ending September 2018, but the company achieved 5.9 billion yen. This time, the company set a target of 16 billion yen in operating income for the fiscal term ending September 2024.
- Both NEW-IT and Publitech segments are performing well, while investing significantly in human resources and development ahead of schedule. The company will extend the benefits of DX to rural regions beyond greater Tokyo, and contribute to resolving regional issues. 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, extending its reach.
- 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. A regional microgrid model has also been launched to promote the use of renewable energy by local governments. The number of deals is likely to grow hereafter.
- 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 16.4 billion yen through a public offering in March 2020, and also prepared a 19.5 billion yen overdraft agreement with banks in June. The company will buy back 1.4 billion yen worth of its own stock by the end of September. Financing for external growth laid out in the mid-term plan has already been put in place. Moving forward, M&A activities to acquire client bases, products, and resources are likely to progress.
- The company is planning to change its fiscal term end, as it will be doing more business with local governments and fiscal terms ending in March will be more suited for its business plan. The fiscal term ending March 31, 2022 will be a six-month irregular accounting period. The figures in the medium-term plan will also be adjusted in accordance with the fiscal term. The company is attracting the right set 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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Corporate rating: A

Stock price (as of December 6, 2021): 1908 yen

Market capitalization: 138.6 billion yen (72.687 million outstanding shares)

PBR: 4.51 ROE: 15.4% PER: 29.3 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 | 15653 | 5985 | 5911 | 4104 | 57.4 | 0 |
| Sept. 2022 (F'cast) | 19000 | 7000 | 7000 | 4700 | 65.2 | 0 |
| Sept. 2023 (F'cast) | 23000 | 9000 | 9000 | 6000 | 83.3 | 0 |

(Based on results as of September 2021)

Total Assets: 39.386 billion yen

Net Assets: 30.455 billion yen

Ratio of Net Worth: 77.3%

BPS: 422.7 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. 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. The company plans to change the fiscal term end to March from fiscal term ending March 31, 2022.

(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 124 million in 2020 to 97 million by 2050. Of the total population, the productive-age population (ages 15 to 64) is expected to decline significantly from 73 million down to 50 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.

Projection of Japan's Population

(million, %)

| | 1950 | 1970 | 1990 | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|------------------|------|------|------|------|------|------|------|------|------|
| 65 and above | 4 | 7 | 15 | 29 | 36 | 37 | 39 | 38 | 35 |
| 15 to 64 | 50 | 72 | 86 | 81 | 73 | 68 | 58 | 50 | 44 |
| 14 and under | 30 | 25 | 22 | 17 | 15 | 12 | 11 | 9 | 8 |
| Total Population | 84 | 105 | 123 | 127 | 124 | 117 | 107 | 97 | 87 |
| Ageing Rate | 5 | 7 | 12 | 23 | 29 | 32 | 36 | 39 | 40 |

(Source) White Paper on Information and Communications, Ministry of Internal Affairs and Communications

$$\text{Human Capital Productivity} = \text{Digital Capital Productivity} \times \text{Digital Capital Equipment Ratio}$$

$$[\text{Value Added}/\text{Human Capital}] = [\text{Value Added}/\text{Digital Capital}] \times [\text{Digital Capital}/\text{Human Capital}]$$

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 born when a former Accenture employee started a consulting support business before

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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, acting 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 and others joined in the planning stage to establish Change and founded today's company.

During the 13 years before the company went public, the current management team led the company as its core members. Since then, the company's internal human resources have been growing steadily, with an employee who joined the company as a new graduate in 2007 becoming an executive officer.

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 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 algorithm groups, such as AI, 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.

Earnings by Business Segment

(million yen)

| | Sept. 2018 Japanese Accounting Standards Non-consolidated | Sept. 2019 Japanese Accounting Standards Consolidated | Sept. 2020 Japanese Accounting Standards Consolidated | Sept. 2019 IFRS | Sept. 2020 IFRS | Sept. 2021 IFRS |
|---------------------------------------|---|---|---|--------------------|--------------------|--------------------|
| New-IT Transformation Business | | | | | | |
| Sales revenue | 2447 | 2742 | 2984 | 2299 | 2231 | 2816 |
| Profit | 790 | 786 | 602 | 719 | 608 | 927 |
| Investment Business | | | | | | |
| Sales revenue | 157 | 450 | 0 | 7 | 198 | 187 |
| Profit | 76 | 288 | -20 | -7 | 177 | 166 |
| Publitech Business | | | | | | |
| Sales revenue | - | 3867 | 8713 | 3691 | 8116 | 12654 |
| Profit | - | 875 | 4190 | 1170 | 4555 | 6666 |
| Adjustment | -352 | -868 | -1145 | -855 | -1138 | -1776 |
| Total | | | | | | |
| Sales revenue | 2604 | 7054 | 11692 | 5992 | 10542 | 15653 |
| Profit before taxes | 513 | 1081 | 3626 | 957 | 4203 | 5985 |

(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.

Four unique characteristics of NEW-IT—A business model for value creation

New technology is constantly entering 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.

Taking the first point on nimble management, when dealing with 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.

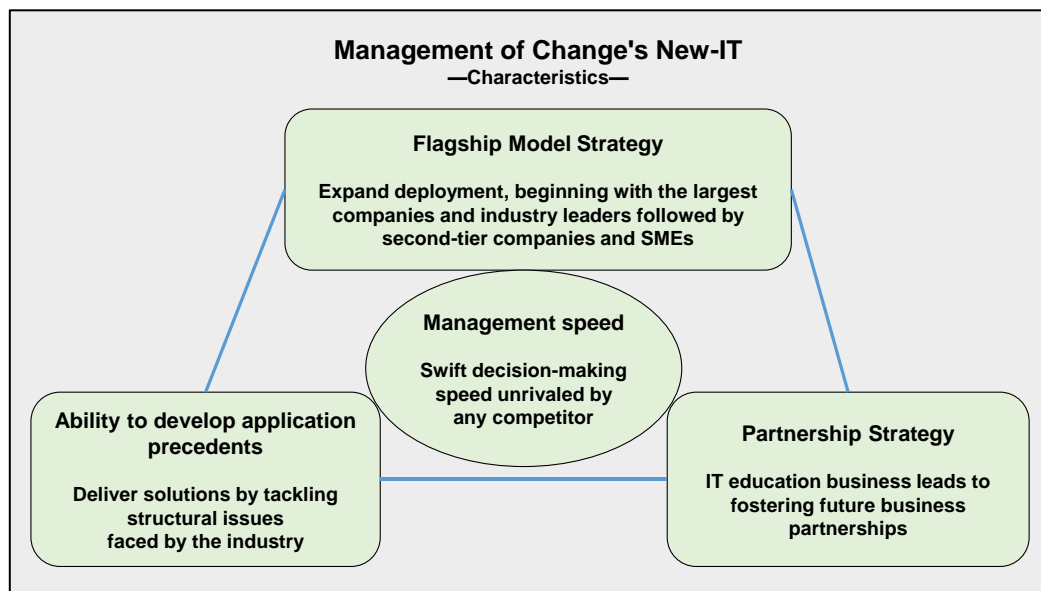
The second point, "the flagship model strategy," refers to the company's approach to add leading players in each industry to its client list, and cascading that work down from the top tier, eventually to the second tier, and then to medium and small-sized enterprises. Our business will also expand horizontally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

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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.

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

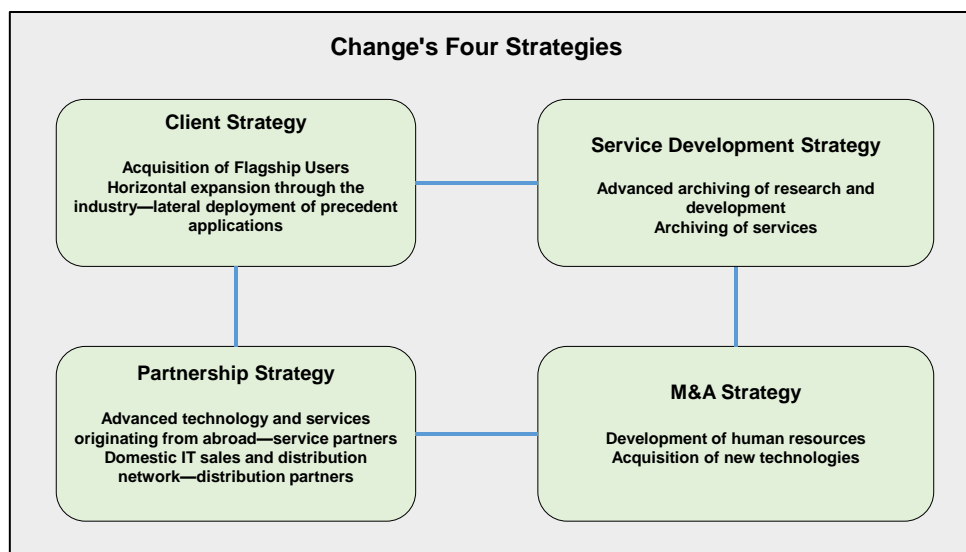
During the company's growth stage, President Fukudome and Vice President Itoh launched new businesses, and the executive officers developed them. The forces driving the company's growth were: 1) development of its employees; and 2) adoption of technology.

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

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overseas technologies.



Approaching industry-leading companies first

The company always makes its approach to industry-leading companies first. The company makes its approach to industry-leading companies in a patient and persistent manner. Although the hurdle is high, taking this tack affords the company recognition, and the management team believes that, if they fail to gain any business there, it would not turn out to be a big market, and thus, they would not have gained any substantial competitiveness.

There are three types of clients. The first type is the "educational customer." These are customers from which the company is able to learn. They are very demanding and their requests are detailed. However, these companies possess a corporate culture designed to accomplish new initiatives, so they are effective at developing prototypes of new business models, even if the return is low.

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

The third type is the "monster client." This type of client is very demanding and critical, but lacks the power to execute within the organization. If the company forces itself to continue engaging this type of client, it will only be in vain, so it needs to disengage as quickly as possible. The company has been successful in developing new clients while taking these points into account.

Adoption of new technology—The "library" is a source of competitiveness

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.

The company possesses a system that enables it to internally share components of the solution to be

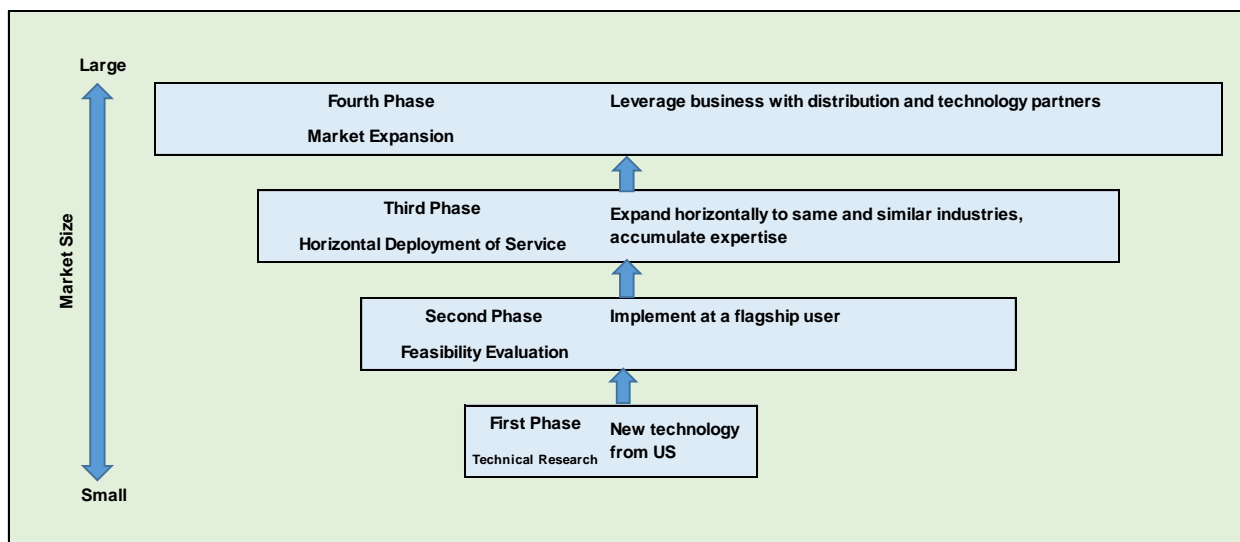
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delivered: expertise, technology, and application cases. It calls this its "library," and each of the company's employees stores potential components in this library. The company has an incentive program that motivates its employees to do so by linking it to each individual's performance appraisal.

Marketing strategy for new technology

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

Phases of Marketing New Technology Promoted by Change



Deployment of Publitech (IT in the public sector)—Complete subsidiary acquisition of TRUSTBANK, further ascending towards the next stage

At local governments, for example, staff are working to enter nonuniform data using their PCs. First, the work content is analyzed (BPR), automation of the work is examined (validation of RPA), and then the automation tool is implemented. This kind of work still exists in abundance in both local governments and private enterprises. In this day and age, however, there are not enough people to do the work. Therefore, the inclination to save human resources in work that can be automated and divert them to different work is certain to gain even more traction in the future.

The company fully acquired TRUSTBANK in 2020. The company's stake had been 70%, but this has since increased to 100%. 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%.

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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.

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 10 years, but this treatment was subject to taxation. (In conjunction with the adoption of IFRS, only trademark rights are currently amortized.) 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. Such M&A through stock swaps will be used as an effective financial strategy in the future.

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 300,000 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 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.

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.

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TRUSTBANK's NEW-IT—Deployment of Publitech

Change has transferred Publitech business and personnel to TRUSTBANK from its main organization. Here, the transferred personnel are driving growth in the Publitech business. The connection established through the Hometown Tax business with the local governments is a huge advantage. The biggest objective is to overhaul the services of the local governments through introduction of NEW-IT.

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

The other was the commission rate for providing the Hometown Tax platform. This has had a positive effect. In the case of TRUSTBANK (Furusato Choice), the original commission rate was set at 2%, whereas competing firms were charging anywhere from 9% to 12%. Judging from the competitive conditions, the company considered it entirely feasible to increase its commission rate while incorporating enhancements to its services.

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,

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which is at the leading edge of electronic government. TRUSTBANK's LoGo Chat utilizes STNet set up in Powerico's data center in Kagawa Prefecture.

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

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

Also, in addition to the Hometown Tax business, the company is engaged in: 1) "Local Currency Business," where funds are circulated through a given region; 2) Publitech Business (LoGo Series), 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.

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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).

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.

Major Portal Sites of the Hometown Tax Program

(cases, 10,000 pieces)

| Name of Site | Number of listed local governments | Number of return gifts | Group |
|------------------------|------------------------------------|------------------------|----------------|
| Furusato Choice | 1608 | 37.2 | TRUSTBANK |
| Rakuten Furusato Nozei | 1233 | 27.6 | Rakuten Group |
| Satofull | 950 | 24.8 | Softbank Group |
| Furunavi | 692 | 21.6 | i-mobile |

(Note) Estimated from various sources, such as Furutoku.

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.

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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

Furusato Choice retains its position as the top brand in the Hometown Tax payment sites. 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 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. How the company differentiates its platform with added-value services will be critical to its continued success.

For the fiscal term ending March 2022, 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 into Public Fintech—Acquisition of Orb, Inc.

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.

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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.

In February 2020, TRUSTBANK acquired Orb, Inc. Orb possesses high-level expertise in blockchain technology. Through application of its unique distributed ledger technology, "Orb DLT," Change will be able to strengthen its settlement solutions that activate communities.

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

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 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

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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, representation by independent outside directors shall 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 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 is 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

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

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

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

Labor shortages will be addressed by automation using AI and robots. Convenience will increase, not only in factories, but in offices, cities, and even in households. New types of supply chains will be developed by collecting, analyzing, and leveraging data that had never been put to use before. Also, the nature of services in medical and nursing care, agricultural products, tourism, and government administration will be transformed to a significant degree.

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

Progress of DX in the Government

In May 2021, six laws promoting digitization of public administration were passed by the Diet, and in September, the Digital Agency was established. 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.

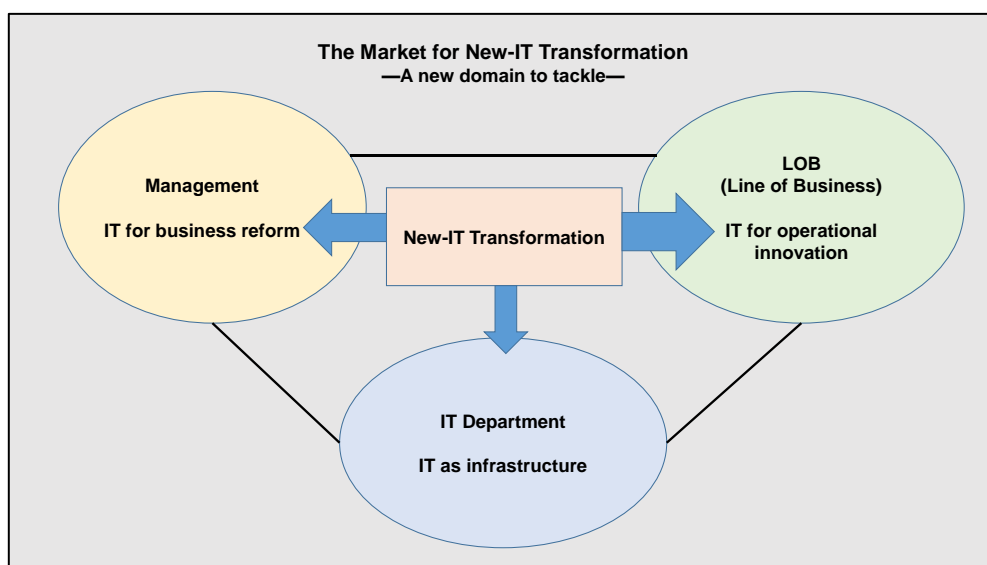
Grasping the business environment—Development of People × NEW-IT

The government has successively announced the following new policies, which coincide with

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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.

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

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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 September 2019 to September 2021)

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

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

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

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

Three business models

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

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

In the SaaS model, know-how acquired through consulting services is delivered via applications, aiming to standardize specific work processes. The company will aim to broadly spread its application in a differentiated range of use. The LoGo Series fits in this category. It is a subscription-type business.

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

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

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organization, and structure.

Long-term Vision and Mid-term Plan of Second Phase

| Concept | *Digitize & Digitalize Japan | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--------------------------|------------------------|--|--|--|--------------------------|--------------------------|---------------|-------|-------|--------|------|-------|------------------|------|-------|------------|------|-------|----------|-----|------|
| Long-term goal | *Establish a leadership position in Japan's digital transformation (DX) market within 15 years (DJ1 to DJ5), comprising five three-year phases | | | | | | | | | | | | | | | | | | | | | | |
| Evaluation of DJ1 (Phase 1) | - Three-year plan ○, business model's degree of completion ◎, strengthening of management platform ○, speed of business implementation △ | | | | | | | | | | | | | | | | | | | | | | |
| Continuous evolution of business model (BM) | | | | | | | | | | | | | | | | | | | | | | | |
| Focus of DJ2 (Phase 2) | <ul style="list-style-type: none"> - Digital + Local + Social - Resolve challenges in local society by focusing on digitization of local regions other than Tokyo - Remote work, LoGo Series, Furusato Choice, regional energy, community currency, payment of public funds, etc. - 3C: Concentration (focus on common issues), Collaboration (assemble confidants for regional revitalization) Confederation (business management with firm centrifugal force) | | | | | | | | | | | | | | | | | | | | | | |
| Financial goal | <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th colspan="3">Three-year plan of DJ2</th> </tr> <tr> <th></th> <th>(Term ending Sept. 2021)</th> <th>(Term ending Sept. 2024)</th> </tr> </thead> <tbody> <tr> <td>Sales revenue</td> <td>15653</td> <td>50000</td> </tr> <tr> <td>EBITDA</td> <td>6712</td> <td>16906</td> </tr> <tr> <td>Operating profit</td> <td>5985</td> <td>16000</td> </tr> <tr> <td>Net profit</td> <td>4113</td> <td>10576</td> </tr> <tr> <td>Employee</td> <td>300</td> <td>1500</td> </tr> </tbody> </table> <p style="text-align: right;">(million yen, persons)</p> | | Three-year plan of DJ2 | | | | (Term ending Sept. 2021) | (Term ending Sept. 2024) | Sales revenue | 15653 | 50000 | EBITDA | 6712 | 16906 | Operating profit | 5985 | 16000 | Net profit | 4113 | 10576 | Employee | 300 | 1500 |
| Three-year plan of DJ2 | | | | | | | | | | | | | | | | | | | | | | | |
| | (Term ending Sept. 2021) | (Term ending Sept. 2024) | | | | | | | | | | | | | | | | | | | | | |
| Sales revenue | 15653 | 50000 | | | | | | | | | | | | | | | | | | | | | |
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| Operating profit | 5985 | 16000 | | | | | | | | | | | | | | | | | | | | | |
| Net profit | 4113 | 10576 | | | | | | | | | | | | | | | | | | | | | |
| Employee | 300 | 1500 | | | | | | | | | | | | | | | | | | | | | |

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 brought 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

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company is now back to re-evaluating M&A deals.

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

Tie-up with M3 Career on deployment of vaccines

The company introduced a service to connect doctors to local governments for deployment of vaccines in collaboration with M3 Career. Beginning in April 2021, the company collaborated with M3 Career Group to deliver support to local governments across the country related to vaccination against the novel 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, which leveraged its specialized website (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 made use of Furusato Choice 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 were 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

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professionals for free.

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

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

In April 2021, 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 rural 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. 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.

A 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.

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. Digital Growth Academia is on pace to achieve annual sales of 600 million yen in six months, and will expand further this fiscal term.

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 the company has monetized its services.

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 April of the following year.

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

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

LoGo Series has been developed together with personnel at local governments based on a thorough understanding of organizational needs. Herein lies its strength. The vendor develops the system, but

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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.

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 xID entered into a business alliance in May 2020. Combining TRUSTBANK's LoGo Form and digital ID application "xID," developed by xID, 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.

xID 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. xID is already working with Kaga City in Ishikawa Prefecture to shift administrative services online.

Acquisition of beacapp

In March 2021, 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.

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 for FY2020 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

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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%.

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 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.

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 through an IPO in September 2020. 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.

Investment Business—IPO Acceleration Program

| Investment | Investment period | Business | Aim | Post-investment |
|-----------------------------|-------------------|--|--|--|
| [Current possession] | | | | |
| 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 |
| [Exit completed] | | | | |
| Phone Appli | Apr. 2017 | Cloud web, telephone directory app | Pooled marketing | Aug. 2018, sold to NTT Communications |
| GA technologies | Dec. 2017 | AI real estate technology | AI synergy | Listed on Mothers in Jul. 2018, sold in 2Q of fiscal term ending Sept. 2019 |
| Voistart | Jul. 2018 | AI speaker service for seniors | Regional revitalization business | Dissolved, transferred to NTT Data |
| Shikigaku | Sept. 2018 | Organization management | Pooled marketing | Listed on Mothers in 2Q of fiscal term ending Sept. 2019, sold in 4Q of same fiscal term |

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.

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 2020, 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.

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In June 2021, 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.

In the investment business, the company has invested a total of 1.435 billion yen to date, and as of end of September, the total investment value, including appraisal value, reached 2.182 billion yen, so a certain level of success has been achieved. In the future, the company will pursue synergies with technologies applicable in the public domain.

Valuation of Investment Business

(million yen, multiple)

| | Number of companies | Book value (A) | Gain on sale | Gain on market valuation (As of end of Sept. 2021) | Total | |
|-----------------------------------|---------------------|----------------|--------------|--|-------|---------|
| | | | | | (B) | (B / A) |
| Cumulative investment | 14 | 1435 | | | 2182 | 1.52 |
| Disposal by sale | 5 | 254 | 356 | | 610 | 2.40 |
| In possession | | | | 391 | | |
| Subject of market value valuation | 5 | 449 | | | 839 | 1.87 |
| Subject of book value valuation | 4 | 731 | | | 731 | 1.00 |

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.

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

In March 2021, 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 16.4 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.

Balance Sheet

| | (million yen, %) | | | | | | |
|---------------------------------------|------------------|--------------|--------------|---------------------------------------|--------------|--------------|--------------|
| (Japanese Accounting Standards) | Sept. 2018 | Sept. 2019 | Sept. 2020 | (IFRS) | Sept. 2019 | Sept. 2020 | Sept. 2021 |
| Current assets | 2103 | 5774 | 11327 | Current assets | 5742 | 11306 | 32956 |
| Cash equivalent | 1055 | 3814 | 7629 | Cash equivalent | 3784 | 7599 | 27690 |
| Accounts receivable | 478 | 1526 | 2920 | Trade receivables, etc. | 1609 | 2921 | 3226 |
| Operational investment securities | 500 | 136 | 541 | Operational investment securities | 140 | 541 | 1571 |
| Non-current assets | 165 | 5101 | 5045 | Non-current assets | 5701 | 5787 | 6430 |
| Property, plant and equipment | 54 | 211 | 180 | Property, plant and equipment | 215 | 189 | 183 |
| Intangible assets | 27 | 4593 | 4617 | Right-of use asset | 299 | 85 | 220 |
| Goodwill | - | 3318 | 3117 | Goodwill | 3620 | 3759 | 4409 |
| Investments, others | 83 | 296 | 248 | Intangible assets | 1275 | 1499 | 1288 |
| Total assets | 2268 | 10898 | 16386 | Total assets | 11444 | 17093 | 39386 |
| Current liabilities | 493 | 1574 | 5046 | Current liabilities | 1797 | 5154 | 5545 |
| Accounts payable | 90 | 242 | 120 | Trade payables | 829 | 2494 | 2942 |
| Short-term borrowings | 45 | 392 | 380 | Short-term borrowings | 365 | 356 | 277 |
| Accounts payable | 55 | 154 | 924 | Income tax payable | 154 | 1424 | 1317 |
| Non-current liabilities | 118 | 3055 | 2605 | Non-current liabilities | 3071 | 2532 | 1446 |
| Long-term borrowings | 93 | 2611 | 2231 | Corporate bonds | 2548 | 2286 | 1290 |
| Net assets | 1655 | 6267 | 8733 | Asset share of parent company | 5854 | 7959 | 30455 |
| Interest-bearing liabilities | 139 | 3003 | 2761 | Interest-bearing liabilities | 2914 | 2642 | 1567 |
| Ratio of interest-bearing liabilities | 6.1 | 27.6 | 16.8 | Ratio of interest-bearing liabilities | 25.5 | 15.5 | 4.0 |
| Ratio of net worth | 72.8 | 50.9 | 44.4 | Ratio of net worth | 51.2 | 46.6 | 77.3 |

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.

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

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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.

Cash Flow

| (Japanese Accounting Standards) | Sept. 2018 | Sept. 2019 | Sept. 2020 | (million yen) | | | |
|---|------------|------------|------------|---|------------|------------|------------|
| | | | | (IFRS) | Sept. 2019 | Sept. 2020 | Sept. 2021 |
| Operating cash flow | 245 | -10 | 4434 | Operating cash flow | 138 | 4634 | 3804 |
| Profit after taxes | 387 | 340 | 3354 | Profit after taxes | 362 | 3900 | 3701 |
| Depreciation | 26 | 221 | 376 | Depreciation and depreciation cost | 346 | 572 | 743 |
| Goodwill | | 301 | 374 | Trade receivables | 418 | -14101 | -251 |
| Accounts-receivable trade | | 399 | -1392 | Trade payables | -566 | 1663 | 419 |
| Accounts payable | | -856 | 682 | Operational investment securities | 359 | -401 | -1029 |
| Operational investment securities | 28 | 63 | -202 | | | | |
| Investment cash flow | -243 | -3048 | -269 | Investment cash flow | -3048 | -269 | -1189 |
| Property, plant and equipment | -17 | -192 | -26 | Property, plant and equipment | -46 | -26 | -142 |
| Intangible assets | -11 | -185 | -254 | Intangible assets | -185 | -254 | -443 |
| Acquisition of subsidiary shares | | -2823 | -36 | Acquisition of subsidiary shares | -2823 | -36 | -660 |
| Financing cash flow | 75 | 5787 | -348 | Financing cash flow | 5638 | -549 | 17476 |
| Long-term borrowings | 61 | 2740 | -392 | Long-term borrowings | 2740 | -392 | -1201 |
| Issuance of shares | 15 | 4256 | 45 | Issuance of shares | 4256 | 45 | 16415 |
| | | | | Proceeds from stock issuance | | | 3823 |
| Balance of cash equivalent at end of term | 1055 | 3784 | 7599 | Balance of cash equivalent at end of term | 3784 | 7599 | 27690 |

Preparation of overdraft agreement

In June 2021, 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 bought back its own shares between August 16 and September 30, 2021. The company

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purchased 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, since treasury stock can be used as consideration in a stock swap, it served to prepare the company for potential M&As.

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.

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

Milestones achieved during DJ1

Fiscal term ending September 2021 was the final year of the first phase (three years) of the company's 15-year plan (five phases). As closing to DJ1: 1) Change style of DX promotion was established. The company will drive DX in companies and local governments based on the development of DX professionals. 2) The evolution into a SaaS-type business model has progressed. LoGo Series and beacapp are about to take off as a subscription-based business.

In NEW-IT: (1) In collaboration with KDDI, Digital Growth Academia was launched in April. (2) The company acquired beacapp as a subsidiary, and are promoting the use of beacons to visualize medical and construction sites. (3) The company is reaching out to local business owners through collaboration with SMBC Group and Chiba Bank.

In Publitech: (1) The use of Hometown Tax in COVID-19 pandemic and disaster relief has taken root, and the common issues of local governments are becoming more visible. (2) Fee-based usage of LoGo Series has started in April 2021, and this is expanding. (3) Newly in the energy business, the company initiated construction of a local microgrid model using renewable energy.

DJ2—Mid-term plan of Phase 2

During the next three years (DJ2) through the fiscal term ending September 2024, through "DX" x "Local" x "Social," the company will aim to: 1) utilize digital technology; 2) make the region sustainable; and 3) solve the social issues facing the region. The company will pursue a high rate of growth in this area of business.

Specifically, there are four business areas: (1) human resource (development of digital professionals); (2) private sector DX (IT services for enterprises); (3) regional development (Furusato Choice, renewable energy); and (4) public sector DX (IT services for local governments).

What will the company focus on in DJ2? The company regards overlaps in DX (utilization of digital technology), local (regional sustainability), and social (solving social challenges) as the sweet spot. 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

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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 2021. 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, an increase of the take rate will be given due consideration before it is implemented. The take rate of competitors stands at about 10%, whereas TRUSTBANK's take rate is 5%. The company's advantage is evident, but this will be kept in reserve as allowance. Third is the prospect of the market's future size. The significance of the Hometown Tax Payment Program lies in regional revitalization. Recognition of the program as making meaningful contributions to the cause will lead to favorable results. However, should attention focus once again on return gifts and should the market become distorted as a result, regulations will be tightened again. The company assumes sound and appropriate growth and does not expect rapid growth of the market.

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

Vision of DJ3 and DJ4

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

Financial goal for fiscal term ending September 2024

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

The company has set 50 billion yen as its sales target, with operating profits of 16 billion yen as part of its financial goal, for the term ending September 2024—three years from now. In addition, the employee count is expected to increase from the current figure of 371 to 1,500. The plan has taken mergers and acquisitions into consideration. For organic growth excluding any impact of mergers and acquisitions, the company aims to achieve 30 billion yen in sales and 11 billion yen in operating profits.

Taking a look at individual segments, in the NEW-IT segment, the company will expand (1) training

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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. 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 (Actual) | (Three-year plan of DJ2) | | | |
| | | | Sept. 2022 | Sept. 2023 | Sept. 2024 | |
| | | | | | (No M&A) | (With M&A) |
| Sales revenue | 105 | 156 | 182 | 230 | 300 | 500 |
| Operating profit | 42 | 59 | 68 | 83 | 110 | 160 |

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

(Note) Upward revision of operating income plan for fiscal term ending Sept. 2022 from 6.5 billion yen to 6.8 billion yen.

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

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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.

Preparation towards DJ2

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.

Responding to demand in the private sector

DGA (Digital Growth Academia, a joint venture with KDDI), a DX professional development program, is demonstrating a strong start.

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.

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.

Responding to demand in the public sector

In July 2021, 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

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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.

Investments in DX Professionals

In November 2021, Prime Minister Kishida announced that 400 billion yen will be invested in human resources to promote local government DX. Such initiatives will lead to new business in the future.

Japanese companies spend 500 billion yen on training and development, while their U.S. counterparts are said to spend 10 times that amount. Japanese companies do not invest enough in development of working adults.

In October, the company formed a business alliance with Wilson Learning Worldwide. Wilson Learning offers consulting services on corporate training and organizational development. The company is focusing on programs to strengthen the sales force, leadership training, and digitizing its training programs. The company aims to: 1) provide Change's DX training services to Wilson Learning's clients; 2) provide Wilson Learning's services to Change's clients; and 3) develop new solutions by combining the training methods and IT content of both companies.

Number of Local Governments That Have Adopted the LoGo Series

(users)

| (Term ending Sept. 2021) | 2Q | 3Q | 4Q |
|--------------------------|------------|------------|------------|
| LoGo Chat | | | |
| Fee-free Use | 249 | 383 | 452 |
| Subscription-based Use | 333 | 339 | 359 |
| Total | 582 | 722 | 811 |
| LoGo Form | | | |
| Fee-free Use | 92 | 161 | 249 |
| Subscription-based Use | 110 | 112 | 131 |
| Total | 202 | 273 | 380 |

(Note) Based on quarterly financial results.

Verifying the effectiveness of LoGo Chat implementation—Aiming to bolster its lineup

The ease of use of LoGo Series has been enhanced in collaboration with personnel at local governments. Through this undertaking, a SaaS model aiming towards local governments is being established.

Results of verification of the effectiveness of implementation of LoGo Chat for local governments were released in September. This is a questionnaire survey of 3,316 people at ten local governments. The results revealed that the following improvements were delivered: 1) real-time coordination of information (86%); 2) faster communication of information in time of emergencies (72%); 3) ease of communication when on business travel or away from the desk (80%); 4) ease of communication

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among multiple individuals (84%), and 5) ease of sharing of photos and information from outside and in the field (72%).

It may seem obvious, but the LoGo Series is becoming the de facto standard in local government operations. The company is attempting to develop these services further.

As for future actions, the company will focus on the following: 1) investing more effort into bolstering security as an infrastructure since it is expanding rapidly; 2) enhancing customer success support; and 3) further expanding the product line. Specifically, the company will incorporate user-friendly functions, such as groupware and slug, into the LoGo series, including its own development.

Commencement of use of regional renewable energy—Working to establish a regional microgrid model

In September, a regional microgrid model initiative was launched in Akune City, Kagoshima Prefecture. The company will install a solar power generation station and prepare storage batteries in preparation against disasters. This will be the construction of an electricity microgrid network for local generation and local consumption. If such microgrids are to expand to 100 local governments in rural areas, Change aims to enter 20 to 30 local governments by administrating their energy management systems. The energy business is expected to turn profitable by fiscal term ending September 2023.

Taking the case of Akune City as an example, if the investment in the local microgrid is 1 billion yen, 700 million yen will be subsidized and the company will contribute the remaining 300 million yen. Eventually, local companies will invest in the project, and our stake will be around 20%. The energy business can have two types of profits: profit associated with the initial investment and profit associated with continuous operation of the system. In the construction and administration of the energy management system, gross profit on investment can be expected to reach 20%, and the SaaS-type service based on the Feed-in Tariff (FIT) program will bring in fees for 20 years.

In the establishment of a model for use of renewable energy within the community of Akune City, Trust Bank Akune, a limited liability company, was established to take the leading role. The company will accomplish the following: 1) research solar power sources and storage batteries; 2) develop a model for their use; and 3) supply electricity to the city's public facilities via self-owned power lines and other means. It will reduce 80% of CO₂ emissions from public facilities. Trust Bank Akune will start as a wholly owned subsidiary, but with the participation of local companies, the shareholding ratio of Change will be reduced to a minor level.

The company will be working on a number of such community-based power generation models in the future. The company estimates approximately 1,000 needs among local governments. If the company is able to capture even 100 of them, it will become a business of considerable scale. This project will be a unique opportunity for the group, which has gained the trust of the local community through its participation in the Hometown Tax program and its management capabilities as a listed company, to demonstrate its strength in the following areas: 1) time and effort is required to negotiate with local governments; 2) a pipeline with the local government is critical; 3) the scale of the business is too small for a large-scale enterprise to partake in; 4) the capital burden is too heavy for a local company to take on; and 5) a solid energy management system is necessary.

The next use of the Hometown Tax Program

Competition in the Hometown Tax Program is fierce, but we do not participate in the point-based

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reward program offered by Satofuru (Softbank) and Rakuten Furusato. In a sense, cash back is not the original purpose of the program, so the company intends to differentiate itself in other ways. The company will attempt to have other companies utilize the Hometown Tax platform (engine).

The total amount of donations collected through the Hometown Tax Program administrated by the company amounts to 210 billion yen. Therefore, a 1% increase in the take rate would lead to an increase in revenue of 2.1 billion yen.

The current system of the Hometown Tax Program seems to have become an excessive competition for return gifts. There is also a noticeable trend to use cash returns through point programs to guide donors to their own websites. Furusato Choice is making an effort to stay out of this competition. Although the company has lost some of its market share in this regard, it places the highest priority on contributing to the local community by focusing on the original purpose of the Hometown Tax Program.

On the other end, the company is trying to further promote Publitech by leveraging Furusato Choice's function as a cash cow. Its take rate is 5%, while other companies in the same industry are at 10%. There is a good chance that the company will be able to increase this by several percent and use the profits for the next advance investment in Publitech.

Contribution to Profits in DJ2 (3-year plan)

| (100 million yen) | | | |
|--|------------|-------------------|-------------------|
| Earnings projection by business segment | Sept. 2021 | Sept. 2022 (Plan) | Sept. 2024 (Plan) |
| New-IT | 9 | 16 | 24 |
| Digital professionals | | 4 | 6 |
| New-IT aimed towards enterprises | | 12 | 18 |
| Publitech Business | 67 | 72 | 108 |
| Furusato Choice | | 72 | 88 |
| IT services for local governments | | | 10 |
| Energy for local governments | | | 10 |
| M&A | | | 50 |
| Total | 60 | 68 | 160 |

(Note) Exempt of Investment Business. Total operating profit is after adjustment for general administrative costs.

M&A to materialize in sequence

With regard to M&A, the company will realize them in order, but at the same time, it will make preparations so that it can achieve 16 billion yen without relying on M&A. In fact, increasing the take rate of Furusato Choice is also a matter for consideration.

M&A are always in sight, but will they really lead to the next generation of 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

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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. Through M&A of several companies, the target set is 20 billion yen in sales, 5 billion yen in operating profits, and an EBIDA ratio of 10. 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.

4. 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 statement from the preceding term, earnings grew significantly due to the consolidation of TRUSTBANK's earnings. Ten months' worth of TRUSTBANK's sales and operating profits were incorporated.

Fiscal term ending September 2020 showed a significant increase in profits

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

In the NEW-IT Segment, activities to develop DX professionals were dramatically altered from before the coronavirus pandemic, and the company shifted from face-to-face to online sessions. During this period, the company quickly shifted its business to the web, based on its change in strategy. At the same time, implementation of remote working environments witnessed considerable growth.

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

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

Seasonality of the Hometown Tax Payment Program

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

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

Change in Business Performance by Quarter

(million yen)

| | 1Q | | 2Q | | 3Q | | 4Q | |
|---------------------------------|-------|------------------|-------|------------------|-------|------------------|-------|------------------|
| | Sales | Operating profit | Sales | Operating profit | Sales | Operating profit | 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 | 2491 | 604 |
| Sept. 2021 (consolidated) | 7799 | 4618 | 2463 | 701 | 2612 | 492 | 2778 | 173 |

Adapting to the coronavirus pandemic

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 completed its transition to IFRS, major components, such as non-amortization of goodwill and allocation of borrowing fees (instead of a lump-sum appropriation) had 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.

Net income doubled in the fiscal term ending September 2021

The number of employees reached 300 (+100 year-on-year) as of the end of September 2021. The company also hired about 10 new graduates. The company plans to continue hiring talented people, increasing at a pace of 20% to 30%.

The company reported exceptional earnings for the term ending September 2021 with sales of 15.653 billion yen (+48.5% year-on-year), operating profit of 5.985 billion yen (+42.4% year-on-year), profit before taxes of 5.911 billion yen (+42.1% year-on-year), and net profit of 4.104 billion yen (+100.3% year-on-year).

In particular, with TRUSTBANK becoming a wholly owned subsidiary (October 2020), net income (current profit attributable to owners of the parent company) doubled in the current fiscal term.

Taking a look at profit by business segment, NEW-IT generated profits of 927 million yen (+52.4% year-on-year), Publitech (+46.4% year-on-year), and the Investment Business generated profits of 166 million yen. The profit structure of the three segments was 12:2:86.

Looking at operating income by quarter, profits in 3Q and 4Q are lower than those in the same period of the previous term and 2Q. In particular, operating income gained in 4Q was low. This is because the company achieved its profit target for the full year, so it used the next upfront investment as an expense through the second half of the year. The overall cost increase reached 1.16 billion yen.

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Specifically, the increase was comprised of: 1) 590 million yen for technology and services development; 2) 520 million yen for recruitment and development of human resources; and 3) 50 million yen for search and scrutiny of M&A candidates. These included the development of new services and schemes for joint proposals, the acquisition of human resources and strengthening of the internal system to take on wide areas, and the outsourcing of M&A advisory services and due diligence research.

Transition of Segment Earnings by Quarter

(million yen)

| | | 1Q | | 2Q | | 3Q | | 4Q | |
|--|---------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | Sales revenue | Operating profit | Sales revenue | Operating profit | Sales revenue | Operating profit | 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 | 513 | 161 |
| | Investment Business | 26 | 20 | -20 | -24 | 15 | 10 | 177 | 171 |
| | Publitech Business | 3835 | 2824 | 769 | 215 | 1712 | 881 | 1800 | 635 |
| | Adjustment | | -276 | | -208 | | -290 | | -364 |
| | Total | 4357 | 2659 | 1353 | 156 | 2341 | 784 | 2491 | 604 |
| Sept. 2021 | NEW-IT | 473 | 136 | 637 | 218 | 999 | 409 | 707 | 164 |
| | Investment Business | 72 | 67 | 175 | 170 | -139 | -145 | 79 | 74 |
| | Publitech Business | 7253 | 4771 | 1651 | 623 | 1756 | 672 | 1994 | 600 |
| | Adjustment | | -357 | | -310 | | -444 | | -665 |
| | Total | 7799 | 4618 | 2463 | 701 | 2612 | 492 | 2779 | 174 |

The company expects to exceed its plan again for fiscal term ending September 2022

The company's business plan for fiscal term ending September 2022 calls for sales of 18.2 billion yen (+16.3% year-on-year), operating profit of 6.8 billion yen (+13.6% year-on-year), profit before taxes of 6.771 billion yen (+14.5% year-on-year), and net profit of 4.522 billion yen (+10.2% year-on-year).

Operating profit was revised upward to 6.8 billion yen from the initial mid-term plan of 6.5 billion yen. The company anticipates double-digit growth, but the growth during this fiscal term appears to be slower than the previous growth outlook. This is due to: 1) the company making a conservative forecast in preparation for the second and third years; and 2) investment in new businesses, including M&A, progressing ahead of schedule.

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Earnings Projection by Business Segment

(million yen)

| | Sept. 2019 | | Sept. 2020 | | 2021.9 | | Sept. 2022 (F'cast) | | Sept. 2023 (F'cast) | |
|--|---------------|--------|---------------|--------|---------------|--------|---------------------|--------|---------------------|--------|
| | Sales revenue | Profit | Sales revenue | Profit | Sales revenue | Profit | Sales revenue | Profit | Sales revenue | Profit |
| New-IT Transformation Business | 2299 | 719 | 2231 | 608 | 2816 | 927 | 4300 | 1400 | 5000 | 1900 |
| Investment Business | 7 | -7 | 198 | 177 | 187 | 166 | 200 | 180 | 300 | 200 |
| Publitech Business | 3691 | 1170 | 8116 | 4555 | 12654 | 6667 | 14500 | 7500 | 17700 | 9400 |
| Total business expenses (G&A expenses) | | -855 | | -1138 | | -1776 | | -2080 | | -2500 |
| Total | 5992 | 957 | 10542 | 4203 | 15653 | 5985 | 19000 | 7000 | 23000 | 9000 |

(Note) Profit is segment profit. IFRS-based.

In the area of M&A, the company is closely examining a few candidates and expects several of these deals to close during the current fiscal term. As for the development of digital professionals, the company will increase the number of people as a platform in this area.

Furusato Choice will realize a system that allows the use of Hometown Tax Program in new donation inflows and real life product exhibitions. By doing so, the company will differentiate itself from other portal sites. The company also plans to add more value by launching new services to increase the take rate. The company is witnessing customer success with the LoGo series, so it will invest more in SaaS for local governments. As for energy, the company will appeal to local governments across the country to increase its market share.

Earnings Forecast

(million yen, %)

| | Sept. 2019 | Sept. 2020 | Sept. 2021 | Sept. 2022 (F'cast) | Sept. 2023 (F'cast) |
|------------------------------|------------|------------|------------|---------------------|---------------------|
| | [IFRS] | [IFRS] | [IFRS] | [IFRS] | [IFRS] |
| Sales revenue | 5984 | 10343 | 15653 | 19000 | 23000 |
| Sales cost | 1936 | 2592 | 4065 | 5500 | 6500 |
| Ratio of costs to sales | 32.4 | 25.1 | 26.0 | 28.9 | 28.3 |
| Gross profit | 4055 | 7950 | 11588 | 13500 | 16500 |
| Gross profit margin on sales | 67.8 | 76.9 | 74.0 | 71.1 | 71.7 |
| SGA expenses | 3047 | 3757 | 5603 | 6500 | 7500 |
| SGA expenses on sales | 50.9 | 36.3 | 35.8 | 34.2 | 32.6 |
| Operating profit | 1027 | 4203 | 5985 | 7000 | 9000 |
| Operating profit on sales | 17.1 | 40.6 | 38.2 | 36.8 | 39.1 |
| Profit before taxes | 957 | 4160 | 5911 | 7000 | 9000 |
| Net profit | 476 | 2049 | 4113 | 4700 | 6000 |

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During the fiscal term ending September 2022: 1) NEW-IT is expected to deliver a high rate of growth as the development of DX professionals takes further shape; and 2) in Publitech, new services based on the Furusato Choice platform will take shape. In addition to the LoGo Series, new businesses will take off. On the whole, the company expects its performance to exceed its plans.

Plans to amend the fiscal term end to March

As the company's work for local governments has been increasing, it determined that it would be easier to promote its business with a fiscal term ending in March rather than September in terms of budget planning. Therefore, a proposal to change to a fiscal term ending March 31 will be put to the vote at the shareholders' meeting in December. This would mean that the fiscal term ending March 2022 will be a 6-month fiscal term, and the fiscal term ending March 2023 a 12-month fiscal term.

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

New businesses taking off

Taking a look at Change's consolidated financial results, at first glance, it may appear that it is a mature company whose main business is the Hometown Tax Program, since the majority of its profits is generated through Furusato Choice. It is quite different in reality.

The main purpose of participating in the Hometown Tax business was to build a network with local governments. By introducing Publitech to local governments, the company aims to bring innovation here. This initiative is gaining momentum.

The company's move to create a platform with LoGo Series for the public is going well. The company's entry into the energy business is timely and fits well with its GX (green) strategy. The company is attempting to gain a big lead in addressing the shortage of DX professionals through its human resource development business. More efforts will be made by the company to expand its capacity and to create a new platform.

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. President Fukudome envisions a grand growth story, quite similar to that of M3's President Tanimura.

Heading 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

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1,000,000 people at a cost of 300 yen per person per month, you can expand your annual sales to 3.6 billion yen as recurring business.

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

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 business, and increase the composition of profits from Publitech other than from NEW-IT Transformation & Hometown Tax Payment Program. 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.)

Focusing attention on the pace of growth—Emphasis on shareholders

In the evening of the day when financial results are released, a debrief for shareholders and investors is held via Zoom. President Fukudome's devotion to addressing basically all of the comments received from individual shareholders and investors is worthy of praise. This meeting for shareholders and individual investors showed how they should be held in the future, and it is assumed that the satisfaction level of those who posed questions was high.

Stock buy-backs are always in the company's sights. The company will maintain a no-dividend

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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. 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. The company plans to offer the same shareholder benefits to shareholders as of the end of the fiscal term ending March 2022, after the change in fiscal term end.

According to the current share price (as of December 6), PBR stands at 4.51, ROE at 15.4%, and PER at 29.3. The synergy achieved with TRUSTBANK has become evident, and expectations for growth have increased. Change's new business model will continue to evolve further. The management effectiveness of the current management team, led by President Fukudome, and the company's future growth potential are worthy of attention.