

3962 Change

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

September 16, 2022

Tokyo Stock Exchange, Prime Section

Highlights

- In Q1, the company acquired two growth companies. LOGOS WARE, where anyone can learn how to use digital tools, excels in e-learning. DFA Robotics is one of the top service robotics companies in Japan. Between the two companies, they will bring in operating profits of 2 billion yen in 3 years with much more room left for future growth. Although the company posted a loss in Q1, it is absolutely not an issue. The medium-term plan's progress is good. The company should recover well in the second half of the current fiscal year and is expected to post a new record profit as planned.
- With the share of business with local governments increasing, the company shifted the end of its fiscal year to the end of March. The medium-term three-year plan was also reviewed with target figures being raised even higher. 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 has set an operating profit target of 20 billion yen for the fiscal year ending March 31, 2025, and the probability of achieving this target is increasing.
- In March, the company formed a capital and business alliance with the SBI Group. SBI Holding acquired 20.1% of Change's shares. For the company, the alliance with SBI, which has a lot of influence among regional banks, will be beneficial in promoting regional development centered on DX. Change's Publitech will also be of value to SBI. The impact of this has not yet been factored into the current medium-term plan.
- 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. Publitech's LoGo Chat and Logo Form are also on a growth trajectory. The number of regional microgrid models that promote the use of renewable energy by regional governments will also increase through horizontal development.
- Financing for external growth (approximately 30 billion yen) as laid out in the medium-term plan has already been put in place. The company will invest 6 billion yen in these two companies. Moving forward, M&A activities to acquire client bases, products, and resources are likely to progress even further. 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 September 16, 2022): 1,885 yen

Market capitalization: 137.5 billion yen (72.959 million shares)

PBR: 7.14 ROE: 14.2% PER: 29.0 Dividend Yield: 0.4%

(Figures are in millions of yen)

Accounting Period	Sales Revenue	Operating Profit	Profit Before Taxes	Current Profit	EPS	Dividend
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
Mar. 2022	10140	4582	4564	3094	42.0	4.5
Mar. 2023 (Forecast)	21000	7000	7000	4700	65.6	7.0
Mar. 2024 (Forecast)	30000	11000	11000	7600	106.1	10.0

(Based on results as of June 2022)

Total Assets: 40.114 billion yen Net Assets: 33.206 billion yen Ratio of Net Worth: 82.8%

BPS: 455.0 yen

(Note) ROE, PER, and Dividend Yield are based on 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 of the term ending September 2021 (figures in brackets are adjusted figures based on IFRS). Profit before taxes reported for, and prior to, the term ending September 30, 2020, is operating profit based on Japanese Accounting Standards. The company changed the end of the fiscal term 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 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 IT utilization among all industries and enterprises is inadequate, and the innovation of business models through the "aggressive adoption of DX" is lagging. In addition to labor productivity and capital productivity, digital productivity is being questioned. This is what Change focuses on.

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 × DX." In other words, it is focused on revitalizing rural regions through the use of DX.

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Origins as a consulting firm

Change was born when a former Accenture employee started a consulting support business before later formally launching an IT training business. The company focused on training project managers (PM) and system engineers (SE). Its clients were big-name system-integration (SI) firms. These clients lacked the bandwidth within, so they outsourced their human resource development to external specialists. This business continues to do well to this day, reflecting the consistent shortage of IT engineers. Individuals who trained here have taken positions in various firms, 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, reassigned to the TSE First Section in September 2018, and transferred to TSE Prime in April.

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

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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. 2019 Japanese Accounting Standards Consolidated	Sept. 2020 Japanese Accounting Standards Consolidated	Sept. 2019 IFRS	Sept. 2020 IFRS	Sept. 2021 IFRS	Mar. 2022 IFRS
New-IT Transformation Business						
Sales revenue	2742	2984	2299	2231	2816	1366
Profit	786	602	719	608	927	392
Investment Business						
Sales revenue	450	0	7	198	187	-216
Profit	288	-20	-7	177	166	-226
Publitech Business						
Sales revenue	3867	8713	3691	8116	12654	8990
Profit	875	4190	1170	4555	6666	5471
Adjustment	-868	-1145	-855	-1138	-1776	-1055
Total						
Sales revenue	7054	11692	5992	10542	15653	10140
Profit before taxes	1081	3626	957	4203	5985	4582

(Note) The profit figures indicate segment profits, while the adjustments applied are for the total company G&A expenses. Profit before taxes concurs with Japanese Accounting Standards and is based on operating profit.
IFRS is on International Accounting Standards basis. The fiscal year ending March 31, 2022, is a six-month period due to a change in the fiscal year end.

NEW-IT's 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 generates the force to move things forward.

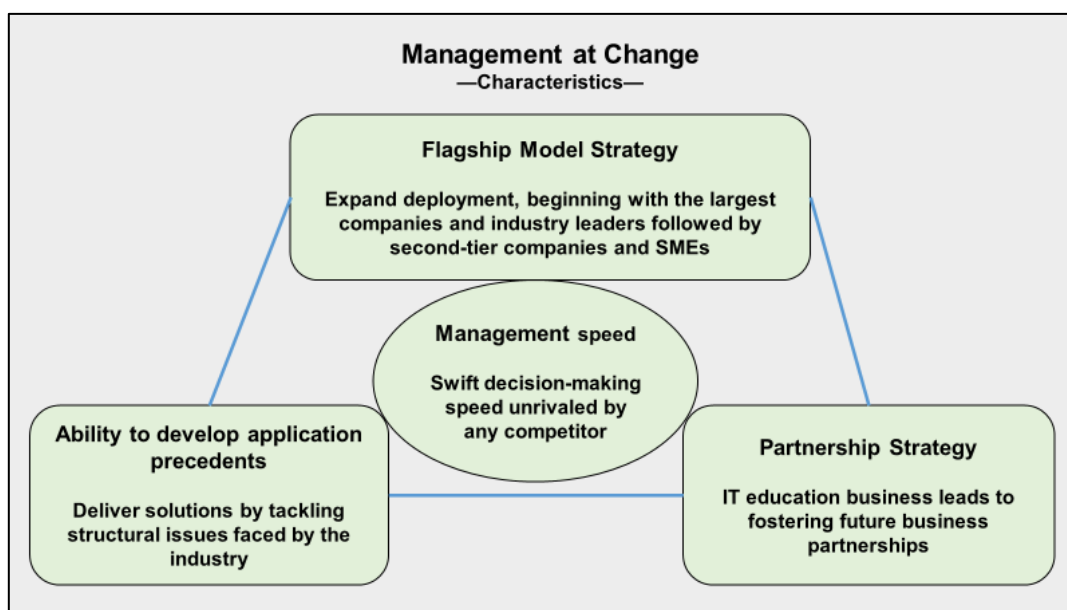
The second point, "the flagship model strategy," refers to the company's approach to add leading players in each industry to its client list, and cascading that work down from the top tier, eventually to

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

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

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



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.

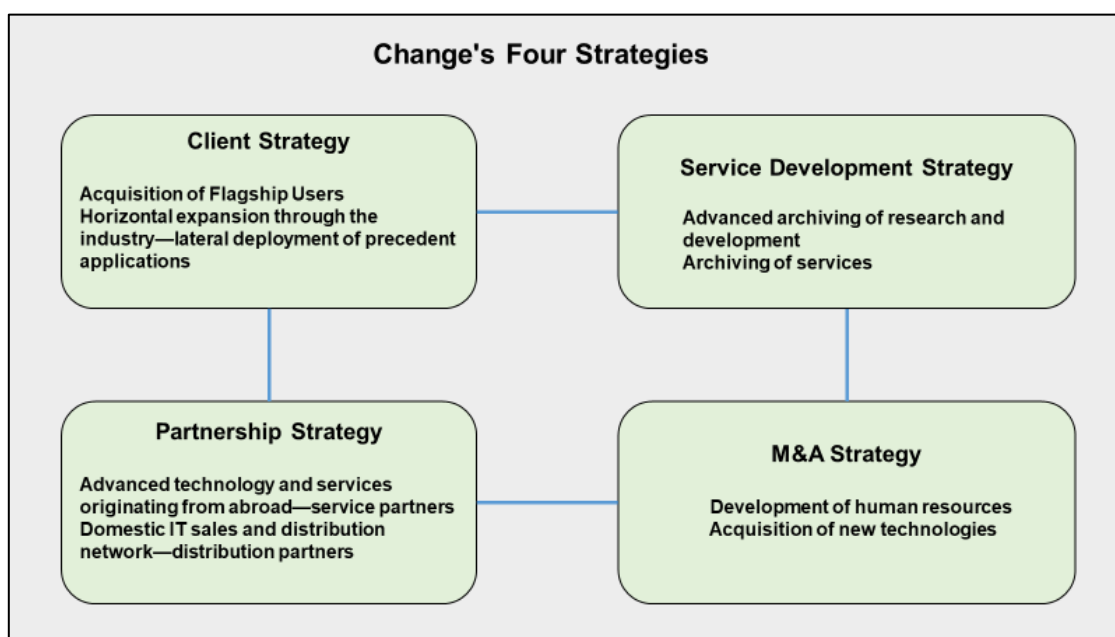
Human resource development and adoption of technology—Exploring IT partners on a global scale

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.

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The company can trace the roots of its business to consulting, so it emphasized operational reform. When actualizing this reform, the company utilized IT as its tool. New technology has always been included in this IT, and results were achieved. As such, the company is expanding across the fields of mobile, security, big data (BD), and IoT.

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



Approaching industry-leading companies first—the "Library" is the source of competitiveness

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.

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.

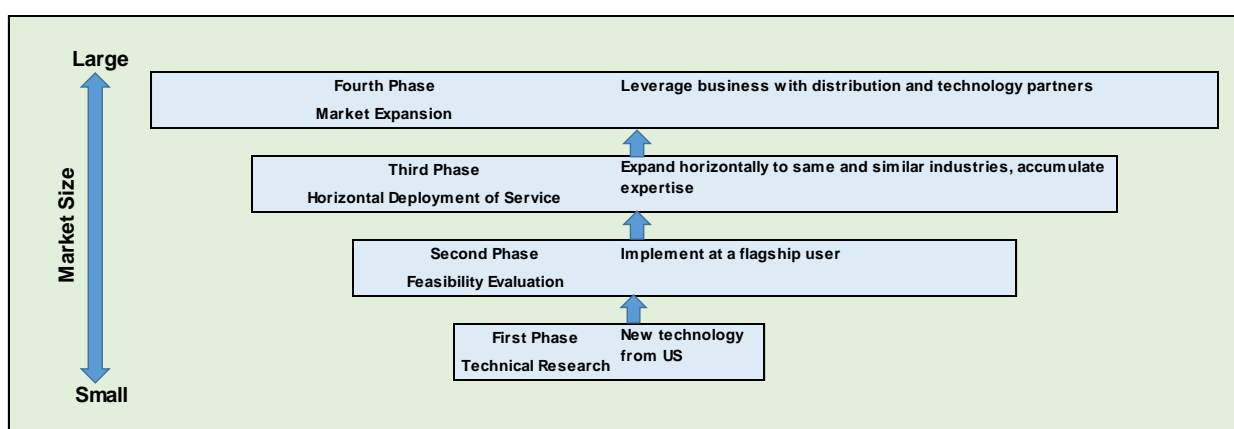
The company possesses a system that enables it to internally share components of the solution to be delivered: expertise, technology, and application cases. It calls this its "library," and each of the company's employees stores potential components in this library. The company has an incentive program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

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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)—TRUSTBANK will plan and manage "Furusato Choice"

The company fully acquired TRUSTBANK in 2020. 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 reached 100%.

This complete ownership of TRUSTBANK will pave the way for more integrated management of the group of companies. As a business division of the Change Group, decisions will be made more swiftly, and first-class personnel from the main organization will be dispatched as necessary. The Publitech business, in addition to the Hometown Tax business, is gaining momentum.

TRUSTBANK is in the top class in terms of the amount of Hometown Tax payments processed. Thanks to the company's website, services related to the Hometown Tax 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 and facilitated settlement of payment on one site. This one-stop Hometown Tax system was revolutionary. Currently, the site has more than 1,600 contracts with local governments, and the number of reward gifts published on the site exceeds 400,000 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

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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.

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. As a result, the company raised its rate to 5%.

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, significant cost savings and productivity gains can be achieved. This is where the opportunity lies for Change.

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Donations Collected through the Hometown Tax

(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	6724	3488	564
Mar. 2022	8302	4447	740

(Source) Ministry of Internal Affairs and Communications

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

Management of TRUSTBANK—Successful PMI of TRUSTBANK

At TRUSTBANK, in January 2020, Ms. Tamayo Sunaga (former Representative Director) assumed the position of Chairperson and Founder, and Mr. Kenichi Kawamura assumed the position of Representative Director. The aim, as a core company in charge of the Publitech business, is to expand NEW-IT business aimed at local governments, which has been the original objective of the business expansion, by leveraging its base network developed through Furusato Choice. President Fukudome, CFO Yamada and three other individuals responsible for the public-sector business have transferred from the main organization to join the team, and are collaborating to manage the overall initiative.

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

TRUSTBANK's vision is to "make regions independent and sustainable." The logic is to deliver people, goods, money, and information to local communities, and to recirculate them within 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. 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) the 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", 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.

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

In fiscal 2019, there was some hesitancy and confusion surrounding the program prior to the Hometown Tax program's policy reform (in June 2019). The value of return gifts was limited to less than 30% of the donated amount and to local produce, but during fiscal 2018, 111.2 billion yen's worth of donations did not satisfy this requirement. This amounted to 20% of the total donations collected, and it was concentrated in a certain number of local governments. The Hometown Tax program has been operating under a new system since fiscal 2020, and the donation market demonstrated strong growth, reaching 830.2 billion yen (+23.5% year-on-year) in fiscal 2021.

The primary original purpose of the Hometown Tax 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 entice or lure users towards a direction contradictory to the original intent, additional regulations may be enacted to control such sites. As the industry's leading company, TRUSTBANK operates the site with this in mind. The company also regularly exchanges opinions with authorities.

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

Furusato Choice retains its position as the top brand in the Hometown Tax 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, 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.

Major Portal Sites of the Hometown Tax

(cases, 10,000 pieces)

Name of site	Number of listed local governments	Number of return gifts	Group
Furusato Choice	1631	42.0	TRUSTBANK
Rakuten Furusato Nozei	1477	38.1	Rakuten Group
Satofull	1100	45.9	Softbank Group
Furunavi	935	29.6	i-mobile

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

Opportunity lies in the Hometown Tax Payment Program for enterprises

The national government is expected to expand the Hometown Tax to private enterprises. Donations collected during fiscal 2020 reached 11 billion yen, which 3.3 times that of the previous year. The

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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. 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 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.

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.

The company possessed impressive technology, but its business performance was not satisfactory. The major shareholder to date has been a venture investment firm, but TRUSTBANK invested 150 million yen to increase its shareholding to 71.76% and later made additional investments which elevated its current shareholding to 95.20%. 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.

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Teamwork and corporate governance—Full ESG engagement with an eye toward future organizational structure

Since the founding of the company, our team has endured hardships together, and that has led to tight coordination among the members of the management team. 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.

At the June shareholder meeting, two auditors were replaced, but all directors were reappointed. Of the six directors, four are on the executive side and two are external directors. All three auditors are from outside the company.

Mr. Hiroshi Fujiwara (CEO, Broad Band Tower Inc.), a member of the Board of External Directors, is an accomplished business leader in the field of internet-related businesses. The other individual is Ms. Eriko Hayashi, a practicing lawyer. Diversification of the company's corporate management through the appointment of women to the management team is making progress, reinforcing the company's governance.

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 environment, the company is developing its business for local production and consumption of electricity and distribution of renewable electricity. How is the company engaging with society? The company sponsors crowd funding through donations, with the aim of resolving challenges faced by local communities.

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.

Today, the group consists of TRUSTBANK and other subsidiaries with Change as the parent company. The number of subsidiaries will continue to increase through future M&A activity. In terms of overall management, it is preferable to form a holding company. In terms of the governance of such a structure, a company with a nominating committee or an audit committee would be appropriate. Should the current auditors be nominated to become directors, there would be four directors on the executive side and five external directors. This is a matter for immediate consideration.

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 fourth industrial revolution, such as IoT, big data, AI, and robots, will be adopted by various industries and all aspects of social life. Through the use of these technological tools, Society 5.0 attempts to deliver services that address the needs of each individual

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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.

In September 2021, a new digital policy agency was established within the government. The new agency is leading 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. The field of Publitech will expand even further.

Human Resources Development x NEW-IT

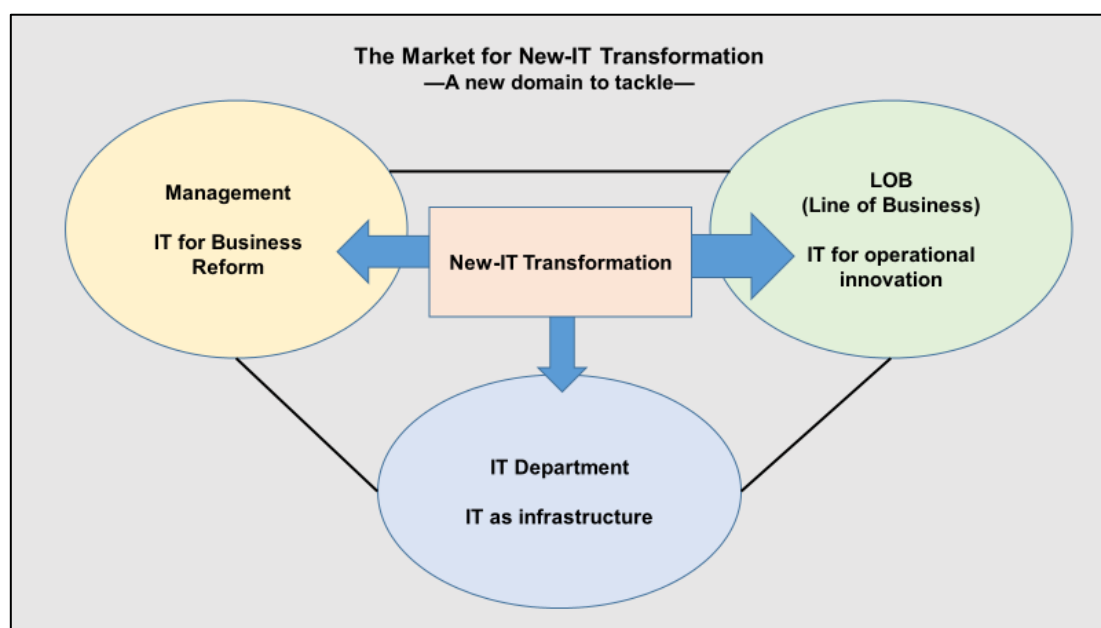
The government has successively announced the following new policies, which coincide with Change's mission: (1) Society 5.0; (2) action plan for work-style reform; (3) action plan for digital government; and (4) a cashless vision.

In other words, the company will develop its business with the aim of improving labor productivity. $\text{Productivity Improvement} = \text{People} \times \text{Technology} = \text{Human Resource Development} \times \text{NEW IT}$. 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

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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 19 trillion yen, but this will 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 3-year phases, the company aims to establish a leadership position in Japan's DX market and is advancing this initiative.

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 digitizing all work processes by eliminating the use of paper and converting all information into digital form. To digitize means to achieve digital transformation (DX) of the business model (value creation scheme) by leveraging digital information.

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Exceeding the company's goal for the DJ1 three-year plan (terms ending September 2019 to September 2021)

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

The company will aim to achieve the following financial targets by the end of 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 this sense, the management base has been strengthened, and a business model is ready to be established.

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="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="3">Three-year plan of DJ2</th> </tr> <tr> <th></th> <th>(Term ending March 2022)</th> <th>(Term ending March 2025)</th> </tr> </thead> <tbody> <tr> <td>Sales revenue</td> <td>15530</td> <td>78000</td> </tr> <tr> <td>EBITDA</td> <td>5856</td> <td>21088</td> </tr> <tr> <td>Operating profit</td> <td>5248</td> <td>20000</td> </tr> <tr> <td>Net profit</td> <td>3729</td> <td>12825</td> </tr> <tr> <td>Employee</td> <td>325</td> <td>2500</td> </tr> </tbody> </table> <p style="text-align: right; margin-right: 20px;">(million yen, persons)</p>		Three-year plan of DJ2				(Term ending March 2022)	(Term ending March 2025)	Sales revenue	15530	78000	EBITDA	5856	21088	Operating profit	5248	20000	Net profit	3729	12825	Employee	325	2500
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	<p>(Note) The fiscal year ending March 31, 2022, is based on the sum of the second half of the fiscal year ending September 30, 2021, and the fiscal year ending March 31, 2022 (half term).</p>																						

Three business models

The company intends to further increase its speed of business during DJ2, its 2nd phase. 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.

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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 site is about to expand beyond its original service of bringing convenience to the process of offering a selection of return gifts to various aspects of regional revitalization.

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

Digital professional development business—from in-person to online

Starting in 2020, the company began providing a new service, "Comprehensive 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 the same year, the company commenced delivery of "Digiteli," a membership-only DX 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 professionals for free.

Commencement of "Digital Growth Academia"—A 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 local regions, the company is accelerating the development of DX professionals by separating the Digital Professionals Development Division from Change and partnering with KDDI, who have regional business locations. It is attracting much interest, and the business outlook is strong.

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

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8.1% of total sales. This business was carved out. 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, which extends across the country. The strategy is to deliver Change's know-how and products via KDDI's corporate platform.

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 the first six months of its business and will likely continue to expand further.

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

LoGo Series, tailor-made for use by local governments, first began with the trial run of LoGo Chat in September 2019, after which the company began offering a mobile app from January 2020. The system allows communication within local governments, conventionally carried out on paper and by telephone, through chats on a mobile app.

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

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 commenced its subscription-based services in April 2021. 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 every April in the following years.

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 the online platform business, and it will achieve a dominant, leading 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. 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 staff working for local governments based on a thorough understanding of local government needs. Herein lies its strength. The vendor develops the system, but the workers are not the users, but rather the creator itself. This is what drives the LoGo Series' success. The system has very effective for sharing information and templates among local governments.

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 that enable users to easily obtain location data. This technology is deployed in the field and rural regions, and utilized as IoT sensors.

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

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

TRUSTBANK's "Enecho" was awarded the Agency for Natural Resources and Energy's Director-General's Prize for fiscal 2020 at the New Energy Awards ceremony. Instead of selling electricity generated at residences, contributions are made to the region through donation of post-FIT electricity. A platform to exchange post-FIT electricity was developed, and donations made to a new electricity company funded by the local government is compensated with local specialties or through points.

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

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

Digital community currency platform service: "chiica"

TRUSTBANK's digital community currency platform service, "chiica," developed for local governments, was adopted by Fukaya City in Saitama Prefecture as part of a project to support families with children. It was launched in August 2020. The local government issues 5,000 negi (the community's 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 operate this system was reduced by 60%.

IPO acceleration program

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

The company also invested in **Headwaters Co. Ltd.**, which develops applications for humanoid robots. Headwaters utilizes 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.

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.

GAUSS' strength is in its unique AI algorithm (machine learning, deep learning), with which it 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.

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	User Experience (UX) 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

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. To accelerate the progress of digital transformation, the key to 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.

In December 2020, Change participated in the capital funding of **Writeup** (securities code: 6580). Writeup delivers DX services to small and medium-sized enterprises across the country. Change

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recognized this DX platform for regional revitalization. Change took on a 2% stake in Writeup to strengthen its alliance with the company. Writeup is listed on TSE Mothers market, but Change has a slight advantage when it comes to application of DX when small and medium-sized enterprises located in rural regions are applying for various subsidies and grants. By entering into a partnership with Writeup, the company aims to gain momentum in revitalizing medium-sized enterprises in rural regions.

In June 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 entered into a capital and business partnership with PORT and acquired 2.3% of the company'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.

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						
Subject of market value valuation	5	449		391	839	1.87
Subject of book value valuation	4	731			731	1.00

In investment business, the company has invested a total of 1.435 billion yen to date, and as of the end of September 2021, the total investment value, including appraisal value, had reached 2.182 billion yen, showing that a certain level of success has been achieved. In the future, the company will pursue synergies with technologies applicable in the public domain.

Sound financial structure—Execution of equity financing to fuel further growth

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

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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.

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.

Balance Sheet

(million yen, %)

(Japanese Accounting Standards)	Sept. 2019	Sept. 2020	(IFRS)	Sept. 2019	Sept. 2020	Sept. 2021	Mar. 2022
Current assets	5774	11327	Current assets	5742	11306	32956	35661
Cash equivalent	3814	7629	Cash equivalent	3784	7599	27690	30407
Accounts receivable	1526	2920	Trade receivables, etc.	1609	2921	3226	3430
Operational investment securities	136	541	Operational investment securities	140	541	1571	1356
Non-current assets	5101	5045	Non-current assets	5701	5787	6430	7067
Property, plant and equipment	211	180	Property, plant and equipment	215	189	183	423
Intangible assets	4593	4617	Right-of use asset	299	85	220	246
Goodwill	3318	3117	Goodwill	3620	3759	4409	4409
Investments, others	296	248	Intangible assets	1275	1499	1288	1432
Total assets	10898	16386	Total assets	11444	17093	39386	42728
Current liabilities	1574	5046	Current liabilities	1797	5154	5545	5873
Accounts payable	242	120	Trade payables	829	2494	2942	2976
Short-term borrowings	392	380	Short-term borrowings	365	356	277	277
Accounts payable	154	924	Income tax payable	154	1424	1317	1713
Non-current liabilities	3055	2605	Non-current liabilities	3071	2532	1446	1349
Long-term borrowings	2611	2231	Corporate bonds Borrowings	2548	2286	1290	1162
Net assets	6267	8733	Asset share of parent company	5854	7959	30455	33480
Interest-bearing liabilities	3003	2761	Interest-bearing liabilities	2914	2642	1567	1439
Ratio of interest-bearing liabilities	27.6	16.8	Ratio of interest-bearing liabilities	25.5	15.5	4.0	4.3
Ratio of net worth	50.9	44.4	Ratio of net worth	51.2	46.6	77.3	78.4

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.

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 the M&A of listed companies in its target.

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At the extraordinary shareholders' meeting held last August, capital stock worth 10.660 billion yen was reduced to 1.0 billion yen, and the capital reserve of 10.617 billion yen was reduced to 1.0 billion yen. The reduced amount was 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. The motion was approved through a special resolution.

In June 2021, the company signed a special overdraft agreement of 19.5 billion yen with Sumitomo Mitsui Banking Corporation. This is a line of credit for future M&A, and the company maintains it in order to be able to act quickly in case the need arises.

Cash Flow

(million yen)

(Japanese Accounting Standards)	Sept. 2019	Sept. 2020	(IFRS)	Sept. 2019	Sept. 2020	Sept. 2021	Mar. 2022
Operating cash flow	-10	4434	Operating cash flow	138	4634	3804	3742
Profit after taxes	340	3354	Profit after taxes	362	3900	3701	3444
Depreciation	221	376	Depreciation and depreciation cost	346	572	743	280
Goodwill	301	374					
Accounts-receivable trade	399	-1392	Trade receivables	418	-14101	-251	-203
Accounts payable	-856	682	Trade payables	-566	1663	419	33
Operational investment securities	63	-202	Operational investment securities	359	-401	-1029	214
Investment cash flow	-3048	-269	Investment cash flow	-3048	-269	-1189	-784
Property, plant and equipment	-192	-26	Property, plant and equipment	-46	-26	-142	-236
Intangible assets	-185	-254	Intangible assets	-185	-254	-443	-487
Acquisition of subsidiary shares	-2823	-36	Acquisition of subsidiary shares	-2823	-36	-660	0
Financing cash flow	5787	-348	Financing cash flow	5638	-549	17476	-241
Long-term borrowings	2740	-392	Long-term borrowings	2740	-392	-1201	-137
Issuance of shares	4256	45	Issuance of shares	4256	45	16415	4
			Proceeds from stock issuance			3823	
Balance of cash equivalent at end of term	3784	7599	Balance of cash equivalent at end of term	3784	7599	27690	30407

Execution of share buybacks

The company bought back its own shares between August 16 and September 30, 2021. The company 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 large-scale M&A of 30 billion yen.

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3. Medium-term business plan: Aiming to secure a leadership position in Japan through "DX × Local × Social"

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 took off as subscription-based businesses.

In NEW-IT: (1) Digital Growth Academia was launched in collaboration with KDDI. (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 of (DJ2) through the fiscal term ending September 2024, with "DX" × "Local" × "Social," the company will aim to: 1) utilize digital technology; 2) make the region sustainable; and 3) resolve 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 digital professional training and development; 2) it will expand the fee-based subscriptions of LoGo Series in its Publitech Business; 3) it will enter into full-scale alliances to redefine its logistics business as part of the 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.

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Firstly, in the Hometown Tax business, 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, a take rate increase is in the plans. Our competitors' take rates stand at about 10%, whereas TRUSTBANK's take rate is 5%. The company's advantage is evident, but this will be kept in reserve as an allowance with the take rate being raised at an appropriate time.

Regarding the Energy Business, the company will help to bring about the use of renewable energy in regional Japan. This will be a development project closely associated with local regions that cannot be replicated by major enterprises or start-ups. 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.

Goal and Focus Area of the Three-year Plan							
(100 million yen)							
	Sept. 2020 (Actual)	Sept. 2021 (Actual)	Mar. 2022 (Actual)	(Three-year plan of DJ2)			
				Mar. 2023	Mar. 2024	Mar. 2025	
						(No M&A)	(With M&A)
Sales revenue	105	156	155	210	300	380	780
Operating profit	42	59	52	70	110	150	200

(Note) The fiscal year ending March 31, 2022, is based on the sum of the second half of the fiscal year ending September 30, 2021, and the fiscal year ending March 31, 2022 (half term).

New-IT	(1) DX services for the private sector (2) Training and development of DX professionals
Publitech Business	(3) Furusato Choice PF (4) Energy business (5) DX services for local governments
M&A	- Customer platform acquisition model - Product acquisition model - Resource acquisition model

Significant upward revision of financial targets for DJ2

The first six months of DJ2 went well. The medium-term three-year plan also established new three year goals to coincide with the fiscal year end change. The profit plan was revised significantly This report is compiled from the unique viewpoint of the analyst and, as a general rule, does not take the position of the analysis subject. This report has been prepared for the purpose of promoting investors' understanding of the subject corporation, and is not meant to provide recommendations, solicitations, or advice to investors. The assigned analyst will take full responsibility concerning its content, but will not be involved in any manner with the investment decisions of the investor. This report contains the above author's views and opinions, and may not be used without prior permission.

upwards, albeit six months later than the original date. The operating profit target is now 20 billion yen for the fiscal term ending March 31, 2025, which was 16 billion yen for the fiscal term ending September 30, 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.

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.

Evolution of the business model—Consulting model → SaaS model → Platform model

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

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

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

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 and 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 ordinary 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.

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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 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.

Supporting the Digital Rural-City State-Initiative—Investments in DX professionals

The Kishida Cabinet's "Digital Rural-City State-Initiative" is a tail wind for Change. On the other hand, competition will intensify as many companies will also enter the field. Furthermore, it is common for national policies to be launched like ad-balloons, only to have effective strategies go astray and fail to produce tangible results. The development of digital professionals through this initiative is an urgent issue. The company will develop 2.3 million digital professionals over five years to be deployed in rural areas. For this purpose, a budget of 400 billion yen has been set aside to provide various types of support.

For Change, this is not simply about participating in a grant project. The company will create and operate the business model to develop a sustainable foundation for digitalization to truly take root and enrich the lives of local governments and local businesses. This is where the company's value creation takes place.

Business alliance formed with Wilson Learning Worldwide

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 2021, 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.

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"KaWaL," subscription-based e-Learning service

In December 2021, the company began delivery of "KaWaL" services, a subscription-based e-learning program. The goal is to learn basic business skills online, so that one can "learn (*wakaru*)" its content and "change (*kawaru*)" oneself. The monthly subscription starts at 880 yen per ID. It can be used for training new employees or for supporting the return to work of employees who were on maternity or childcare leave.

In fact, to enhance KaWaL's content and put it into practical use, the company has entered into a business partnership with "Career Mam co., Ltd," which supports women's re-entry into the workforce. Career Mam operates a community website with 110,000 members nationwide.

In this manner, the migration of the education business from a flow-type to a stock-type business is making steady progress.

Number of Local Governments That Have Adopted the LoGo Series

	(users)					
	May 2021	Jul. 2021	Nov. 2021	Feb. 2022	May 2022	Aug. 2022
LoGo Chat						
Fee-free Use	249	383	452	518	386	520
Subscription-based Use	333	339	359	365	510	519
Total	582	722	811	883	896	1039
LoGo Form						
Fee-free Use	92	161	249	290	120	105
Subscription-based Use	110	112	131	138	310	327
Total	202	273	380	428	430	432

(Note) Based on quarterly financial results.

Extension of LoGo Chat implementation—Aiming to bolster its lineup

The LoGo series is well on its way to becoming a fee-based service. LoGo's income from its fee-based services is expected to reach a base of 1 billion yen in Annual Recurring Revenue (ARR) by the fiscal term ending March 31, 2023.

Results verifying the effectiveness of the implementation of LoGo Chat for local governments were released in September of last year. 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 among multiple individuals (84%), and 5) ease of sharing of photos and information from outside and in the field (72%).

The effectiveness of the introduction of LoGo Forms, a tool for digitizing administrative procedures, has also been reported many times. In Matsuzaka City, Mie Prefecture, work hours used for WiFi connection surveys at GIGA School were reduced. In Kawaguchi City, Saitama Prefecture, work hours used for processing applications and invoices for the Infection Prevention Cooperation Fund were cut back.

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The use of individual staff IDs in local governments with LoGo Chat has enabled direct communication with local governments. It is becoming possible to swiftly identify needs in the field and convert them into DX applications. 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. It may seem obvious, but the LoGo Series is becoming the de facto standard in local government operations.

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.

The start of "Govmates," a joint venture delivering DX services to local governments

This April, Govmates commenced delivery of DX services to local governments. With a staff of 50 professionals at the start, the company expects to generate sales of 2 billion yen in the first year. Its headquarters are located in Matsuyama City, but the company considers the whole country as its market. It proposes to promote DX at the prefectural and government ordinance city levels. Since this area does not overlap with the local governments covered by TRUSTBANK, it should be possible to do this while maintaining a clear separation.

Govmates is 60% funded by Change with the remaining 40% coming from Konica Minolta Publitech. The head office will be located in Matsuyama City, Ehime Prefecture, a location actively engaged in local government DX.

The company possesses AI development know-how and a track record of working with more than 1,600 local governments. Konica Minolta Publitech has conducted workload surveys for all of the more than 120 local governments in Japan and retains the data from those surveys. All of the work carried out by each local government is identified and compiled into a data set. President Beppu of Konica Minolta will lead the business.

DX support for municipal operations will be implemented according to the following three strategies: 1) Regional co-creation strategy (collaborate with local communities on issues unique to local governments), 2) data accumulation and utilization strategy (utilize municipal business data for resident services), and 3) municipal DX one-stop strategy (provision of one-stop services on the platform).

These will be implemented with "Govmates," a municipal DX support platform, serving as a basis. The (1) visualization, (2) analysis, (3) optimization, and (4) standardization of business operations can be swiftly advanced.

Promotion of horizontal deployment

As for Govmates, the 20-city model in Ehime Prefecture will be rolled out horizontally. An online application procedure management system for MyNumber has been put in place to centrally manage the process. Whether manual or online, the entry points will remain diverse, while all back administrative procedures will be consolidated and conducted online. Thus, Govmates will become the de facto system. President Fukudome is confident that the company is on track to achieve this goal.

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Whether the company will collect revenue from local governments or from the national government (Ministry of Internal Affairs and Communications) remains to be seen, but the company is making progress in integrating and unifying its services. On a monthly basis, Govmates requires the up-front investment of fixed costs, but it will break even in the current fiscal year as it will collect revenue at the end of the fiscal year (March).

Support for digitization of administrative procedures for the Tokyo Metropolitan Government

In the digitization of administrative procedures for the Tokyo Metropolitan Government, the company was able to win the competition and secure another project in fiscal 2022.

The company is working to support the digitization of administrative procedures for the Tokyo Metropolitan Government. Change, KDDI, Konica Minolta, and Digital Growth Academia teamed up to deliver support services for the digitization of administrative procedures undertaken at local government offices in Tokyo.

The four companies will work together to streamline daycare center related processes, facility reservation processes, and other common desk related processes. Unlike the traditional approach, the goal is also to help local government staff review their own work processes and learn the process of digitizing these tasks. Participation in the work of the Tokyo Metropolitan Government will serve as an extremely powerful case study for future regional development.

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

In the energy sector, the Akune City model has already begun to be horizontally expanded to Yonago City.

In September of last year, a regional microgrid model initiative was launched in Akune City, Kagoshima Prefecture. The company will install a solar power generation station and install storage batteries in preparation for 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 the fiscal term ending March 2024.

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.

To establish a model for renewable energy use 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

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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 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

The strategic map for expanding business areas will be developed along the local axis (local governments, private sector, etc.) and the social axis (government, human resource infrastructure, culture, etc.). In the Hometown Tax business, the company will roll out measures to increase its Gross Merchandise Value (GMV, total value of distribution transactions), but this increase is not expected to be at all significant for the mid-term plan. The company plans to raise take rates starting in the fiscal term ending March 31, 2024.

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

The company is aiming to further promote Publitech by leveraging Furusato Choice's function as a cash cow. In addition, the company will attempt to have other companies utilize the Hometown Tax platform (engine).

The total amount of donations collected through the Hometown Tax administrated by the company amounts to 210 billion yen. 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 rate and use the profits for advance investments in Publitech. A 1% increase in the take rate would lead to an increase in revenue of 2.1 billion yen.

Collaboration with "ENgiNE," a SaaS-model crowdfunding platform

Change entered into a business alliance with Relic in January of this year. Relic operates "ENgiNE," the leading SaaS-model crowdfunding platform in Japan. This platform is used by more than 200 companies, including financial institutions and major media outlets.

There is growing interest in "regional trading companies" that take on marketing activities including production, distribution, and sales of local products from rural regions. Regional banks, with their regional networks and high creditworthiness, are attracting attention as the leaders in this area. Regional banks are also wanting to expand into new businesses.

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Change is skilled in the area of regional business and DX. By partnering with Relic, the company will support regional banks' regional trading business. The initiative will utilize platforms other than Hometown Tax's platform to raise funds. Relic will also benefit from the opportunity to expand its business to rural regions.

As a first step, in October of last year, Chiba Bank's wholly owned subsidiary, "Chibagin Market Co., Ltd." launched "C-VALUE," a purchase-based crowdfunding site that creates products and services representing Chiba prefecture. Any horizontal deployment to come will be closely watched.

Contribution to Profits in DJ2 (3-year plan)

Segment profits	(100 million yen)	
	Sept. 2021	Mar. 2025 (Plan)
New-IT	9	50
DX services for the private sector		+10
Training and development of DX professionals		+30
Publitech Business	67	140
Furusato Choice PF		+57
DX services for local governments		+16
M&A		50
Total	60	200

(Note) The total is after adjustment for general administrative costs.

Profit contribution will be multifaceted—M&A to materialize in sequence

The company has a target of 20 billion yen in operating profits for the fiscal term ending March 31, 2025. However, based on the 6 billion yen contribution from operating profits in the fiscal term ended September 30, 2019, the company expects to post +1 billion yen in private sector DX, +3 billion yen in human resource development, +5.7 billion yen in regional development, +1.6 billion yen in public sector DX, and +5 billion yen in M&A, for a total of more than +16 billion yen.

M&A deals are being reviewed on a case-by-case basis. President Fukudome said that 60% to 70% of his time is currently spent scrutinizing M&A deals. The medium-term plan incorporates this into the third year's goals, but the company will execute swiftly after careful consideration.

In M&A, the strategy is to bring multiple companies under its umbrella, both technology and human resources-based. The company will broaden the range of its products and services on the vertical axis, and expand its customer base on the horizontal axis for cross deployment.

M&A is planned for several companies with sales of 40 billion yen, operating profit of 5 billion yen, and headcount of 1,800 employees. The company is considering projects that can generate operating margins of 10%. The company will secure the right talent, empower them with its know-how and competence, and elevate the level of profit generated by unit workers. PMI will be completed to achieve a SaaS-type earning model.

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

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of (1) is acquisition of the network of local governments through Furusato Choice, (2) is achievement of SaaS model product services, and (3) is the total number of consultants and engineers secured.

There are not so many companies that describe M&A with such clarity in its mid-term plan as Change. The company is planning for M&A with several companies and is targeting an EBITDA multiple of 10. There does not seem to be any specific deal yet, but the company appears to have a roster of candidates. Any future deployment will be closely watched.

Expansion of business scope through collaboration with SBI Group

(1) The future of Change

A capital and business alliance with SBI was concluded. As of the end of March, SBI Holdings (HD) held 19.78% of Change's stock. At the end of March, shares held by Chairman Jimbo and four other founding management team members were transferred on a relative basis. As a result, the largest shareholder of Change is now SBI HD, and with Chairman Jimbo's shareholding ratio declining from 13.13% to 6.50%, he is now the second-largest shareholder.

The aim of this alliance is to strengthen cooperation with regional financial institutions, on which the SBI Group is focusing its business. Three players hold the keys to regional development: (1) regional financial institutions; (2) local governments; and (3) local enterprises. How the company will be able to reenergize these fields is the question. Change Group excels in the area of local government. SBI's strength is with regional financial institutions. Through the two companies, the network will expand to include local enterprises. This fits nicely with Change's proposition of regional development with DX.

In June, SBI HD's shareholding in Change reached 20.13%. As a result, Change will become an equity method affiliate of SBI HD. For SBI, equity earnings can be reflected in its P/L without the changes in the share value of Change being affected through market-to-market valuation. For Change, there are no negative aspects regarding growth, as it will become a member of the SBI group in a broad sense, but it will be able to take a leadership role in the expansion of its business in the public technology sector.

(2) Promoting three types of collaboration

Specifically speaking, the company will promote three types of collaboration. First, in the area of regional development, President Fukudome will sit in as the president of "SBI Local Development Services," and in addition to the existing cloud services for accounts, expand the areas of: (1) community development; (2) environmental development; and (3) disaster prevention.

Second, synergy will be sought in the area of ESG with energy as the axis, combining solar sharing with Change Group's smart city and microgrid power generation under "SBI Energy."

Third, the domain of the "SBI Business Succession Fund" will be expanded to SI professionals, including referrals from regional banks, to promote business succession by SIers.

President Kitao of SBI Holdings decided to make significant progress in the collaboration that he has fostered with Change and other group companies. This demonstrates the high degree of recognition for President Fukudome's ambition and management skills. For President Fukudome, he decided that partnering with SBI would be a great opportunity to lead and accelerate the undertaking of regional

development with DX. Management independence has been secured with no particularly negative factors. Expectation is high for great achievements in the times to come.

(3) Results are expected in the third year

President Kitao of SBI and President Fukudome of Change are on the same wavelength in terms of regional development. The SBI Group, with regional banks at its core, and Change, which promotes regional development in areas other than finance, complement each other well and make the whole stronger than the sum of its parts.

SBI invested 20% in Change. The founding members of Change owned approximately 40% of the company's stocks, but they were able to transfer 20% of that to SBI to strengthen the business and create a stable shareholder. The founding members continue to own 20% of the company and are able to assume management control.

SBI is expected to increase its shareholdings if it is convinced of the success of Change's regional development initiative. From this point forward, the market will make its own determinations.

In collaboration with regional banks, it also seems promising to expand environment-related business by taking advantage of Local Development Services. Recycling businesses, for example, would be candidates. Partnering with the finance sector holds significance in energy-related business because it entails investing. The business to bring together SIers with a business succession fund is likely to make progress in terms of speeding up the process.

Regional banks are local but have an outsized presence in their regions. On the other hand, in terms of business development, the pace may be slow in many aspects. In contrast, Chiba Bank (President Yonemoto), with which Change has teamed up, is moving swiftly and constantly producing results. If an example can be set, it is likely to spur progress among enterprises in the industry.

The current medium-term plan does not incorporate any synergies with SBI. If a framework for business collaboration is established during this first year and activities take shape in the second year, a certain degree of contribution to profits can be expected in the third year. Once this becomes an incremental gain, it will prove to be very positive for the ensuing medium-term plan.

Change could possibly become a prominent core member of the SBI Group. President Fukudome's ability, from President Kitao's point of view, will make him a competent manager who can be entrusted with the next new business.

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

Seasonality of the Hometown Tax Payment Program

The Hometown Tax peaks during the October to December period, has its lowest intake during the January to March period, and then gradually recovers in the April to June and July to September periods. The degree of fluctuation is large, but as users become increasingly familiar with the program, the company expects such seasonality to gradually level out. This seasonal expansion is clearly visible in the balance sheet at the end of December. Accounts receivable will increase, and deposits on the liability side will also increase. A significant decrease and levelling off is anticipated by the end of March.

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Change in Business Performance by Quarter

(million yen)

	April to June		July to September		October to December		January to March	
	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit	Sales	Operating profit
[Japanese Accounting Standards]								
Mar. 2018 (non-consolidated)	628	166	420	9	392	25	767	176
Mar. 2019 (consolidated)	702	165	743	147	2035	439	1630	132
Mar. 2020 (consolidated)	1664	270	1725	240	4512	2570	1673	40
[IFRS]								
Mar. 2021 (consolidated)	2341	784	2491	604	7799	4618	2463	701
Mar. 2022 (consolidated)	2612	492	2778	173	7932	4782	2208	-200
Mar. 2023 (consolidated)	2762	-18						

(Note) Data has been sorted by quarter to accommodate the changing of the end of the fiscal year March.

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 completed its transition to IFRS based accounting and focused on strengthening its IR activities abroad in preparation 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.

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 30, 2021 with sales revenue 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.

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Taking a look at profits by business segment, NEW-IT generated a profit of 927 million yen (+52.4% year-on-year), Investment Business generated 166 million yen, and Publitech delivered 6.667 billion yen (+46.4% year-on-year).

Expenses in preparation for the next stage increased for the fiscal year ending March 31, 2022 (six months)

The fiscal term ending March 31, 2022, was a six-month period due to a change in the fiscal year end. Compared to the first half of the fiscal term ending September 30, 2021 (October to March), sales for the term ending March 31, 2022 came in at 10.140 billion yen (−1.2% year-on-year), operating profits of 4.582 billion yen (−13.9% year on year), pretax profits of 4.564 billion yen (−13.3% year-on-year), and current profits of 3.093 billion yen (−10.8% year-on-year).

The decrease in operating profit was due to head office expenses and high valuation losses on stocks in the investment business, although the core business of NEW-IT and Publitech remained strong. The write-downs on stocks are mainly due to adjustments in the equity market and not due to changes in the performances of the companies in possession. The increase in head office expenses is due to higher hiring expenses to strengthen human resources and increases in expenses associated with M&A screening. This is due to an increase in upfront investments in preparation for the next stage of growth.

Earnings Projection by Business Segment

(million yen)

	Sept. 2020		Sept. 2021		Mar. 2022		Mar. 2023 (Forecast)		Mar. 2024 (Forecast)	
	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit
NEW-IT Transformation Business	2231	608	2816	927	1366	392	4200	1600	5000	2000
Investment Business	198	177	187	166	-216	-226	-200	-200	0	0
Publitech Business	8116	4555	12654	6667	8990	5471	17000	7900	25000	11500
Total business expenses (G&A expenses)		-1138		-1776		-1055		-2300		-2500
Total	10542	4203	15653	5985	110140	4582	21000	7000	30000	11000

(Note) Profit is segment profit. The fiscal year ending March 31, 2022, is a six-month period.

An increase of 33% in operating profit for the fiscal year ending March 31, 2023

The company's business plan for fiscal term ending March 31, 2023, calls for earnings of 21.0 billion yen (+35.2% year-on-year, based on the combined period), operating profit of 7.0 billion yen (+33.4% year-on-year, similarly), profit before taxes of 6.967 billion yen (+33.7% year-on-year, similarly), and net profit of 4.669 billion yen (+25.2% year-on-year, similarly).

Private sector DX, human resource development, regional development, and public sector DX will all expand and increase their profit contributions. However, looking at Q1 (April to June), Q2 (July to September), Q3 (October to December), and Q4 (January to March) separately, profits will be larger in the second half.

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Q1 results were entirely satisfactory

In Q1 of the fiscal year ending March 31, 2023, sales revenue was 2.762 billion yen (versus 2.612 billion yen in Q1 of the preceding fiscal year) and operating profit was -18 million yen (492 million yen in the same quarter of the preceding fiscal year), which resulted in a deficit despite higher revenue. Here, the corresponding period of the preceding fiscal year is Q3 (April to June) of the fiscal year ending September 30, 2021.

The company's goal for this fiscal year is 7 billion yen in operating profit, of which the target for Q1 was 200 million yen, so the expected operating profit for Q1 was low to begin with. Even so, the factors behind the slight Q1 shortfall of the company's target were: (1) focus on two M&A deals; and (2) a valuation loss in the investment business (operational investment securities) due to a drop in the value of stocks, neither of which were hardly an issue.

Since the company was focused on M&A during Q1, there were quite a few regular projects that failed to materialize. Writeup has suffered a valuation loss due to the drop in stock price, but the collaboration is important as it has been adopted as a platform (PF) in connection to NTT Docomo's DX.

Transition of Segment Earnings by Quarter

(million yen)

		April to June		July to September		October to December		January to March	
		Sales revenue	Operating profit	Sales revenue	Operating profit	Sales revenue	Operating profit	Sales revenue	Operating profit
Mar. 2021	NEW-IT	618	183	513	161	473	136	637	218
	Investment Business	15	10	177	171	72	67	175	170
	Publitech Business	1712	881	1800	635	7253	4771	1651	623
	Adjustment		-290		-364		-357		-310
	Total	2341	784	2491	604	7799	4618	2463	701
Mar. 2022	NEW-IT	999	409	707	164	653	203	713	189
	Investment Business	-139	-145	79	74	24	19	-240	-245
	Publitech Business	1756	672	1994	600	7254	5087	1736	384
	Adjustment		-444		-665		-528		-527
	Total	2612	492	2779	174	7932	4782	2208	-200
Mar. 2023	NEW-IT	1031	351						
	Investment Business	-147	-158						
	Publitech Business	1879	437						
	Adjustment		-649						
	Total	2762	-18						

(Note) Data has been sorted by quarter to accommodate the changing of the end of the fiscal year March.

Factors contributing to the YoY decline in profits include: 1) an increase in start-up costs for Govmates; and 2) upfront investments in M&A preparation and human resources. The company's headcount increased by 40 during Q1. The cost of Govmates can be recovered through an increase in sales (to local governments) at the end of the fiscal year, and the return on investments in M&A and human resources will be of great benefit in the next fiscal year and beyond. The company expects an

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operating profit of 600 million yen in the first half and 6.4 billion yen in the second half of the current fiscal year, so a good recovery should be seen in the second half.

Two M&A deals were closed in Q1

(1) LOGOS WARE

In July, the company acquired LOGOS WARE as its subsidiary. The company offers a live e-learning training delivery platform called "Minna De." Change's subsidiary, Digital Growth Academia (DGA), acquired LOGOS WARE. The acquisition price has not been disclosed, but the company acquired 51.0% of the capital.

Its platform is not just for training special digital engineers, but a platform for any and all employees to acquire digital skills. The aim is to enable everyone to freely use new digital tools, just as they would use Word and Excel on their PCs.

The company highly rated LOGOS WARE's technical and product capabilities on the learning platform. By joining the company, it will be able to greatly expand its user base.

(2) DFA Robotics

In August, the company acquired DFA Robotics. The acquisition price has not been disclosed, but Change acquired 79.27% of the company. This company boasts one of the best operational records in Japan for service robots. It specializes in food delivery robots for the food and beverage industry. The company imports, distributes, and provides implementation support for self-driving robots.

DFA already has a track record of 1,000 units. Change possesses expertise in productivity analysis and could significantly expand the market size through the effective use service robots.

(3) Potential of the companies

By growing these two companies, Change aims to generate operating profits of 2.0 to 2.5 billion yen in three years. The plan is to generate 40% to 50% of the 5 billion yen in operating profit from M&A, which it has set as an additional target in its medium-term business plan.

LOGOS WARE's business results for the fiscal term ending June 30, 2021 comprised of sales of 911 million yen, operating profit of 362 million yen, and net assets of 895 million yen. Change is considering eventually increasing its stake in LOGOS WARE to 100%.

DFA Robotic's business results for the fiscal term ending October 31, 2021 comprised of sales of 369 million yen, operating profit of 74 million yen, and net assets of 128 million yen. For the fiscal year ending October 31, 2022, the company expects to generate around 1 billion yen in operating profit.

Looking at the enterprise value of each company, LOGOS WARE's operating profit is 400 million yen and DFA's is 1 billion yen, for a total of 1.4 billion yen, which will likely grow to 2.0 to 2.5 billion yen in three years. LOGOS WARE's shareholding ratio will be increased to 100% and DFA's to 79%.

Assuming a total acquisition value of approximately 6 billion yen for both companies, based on an EBITA of 1.5 billion yen, the EBITDA multiple of 4x is not very high. Rather, it is quite reasonable. The investment should be sufficiently recouped within five years.

Should both of these companies do well, there is considerable room for growth in the future. It is highly probable that it will grow into a new revenue pillar. If the number of DFA Robotic's service

robots can be expanded from 1,000 to 10,000, and then to 100,000, DFA will become the undisputed leader in the industry.

Focus on the next M&A

President Fukudome is setting an operating profit target of +5 billion yen or more as part of the company's M&A strategy, and the company will continue to pursue new M&A targets. Even currently, the company is evaluating four M&A deals.

There could be a variety of M&As to consider, from small-scale ones with high potential like this one to large-scale deals worth several tens of billions of yen each. As the deals get larger, some business models will work with Change's and some will not. It will not be possible to divest undesired businesses immediately after an M&A, which may be a difficult aspect to consider in terms of post-merger integration.

Our two-sided strategy will be to strengthen the foundation for growth by materializing a few small and medium-sized projects, while taking large-scale projects into consideration but without overextending.

Earnings Forecast

(million yen, %)

	Sept. 2020	Sept. 2021	Mar. 2022	Mar. 2023 (Forecast)	Mar. 2024 (Forecast)
Sales revenue	10343	15653	11140	21000	30000
Sales cost	2592	4065	2166	7370	9700
Ratio of costs to sales	25.1	26.0	21.4	35.1	32.3
Gross profit	7950	11588	7974	13630	20300
Gross profit margin on sales	76.9	74.0	78.6	64.9	67.7
SGA expenses	3757	5603	3392	6630	9300
SGA expenses on sales	36.3	35.8	33.5	31.6	31.0
Operating profit	4203	5985	4582	7000	11000
Operating profit on sales	40.6	38.2	45.2	33.3	36.7
Profit before taxes	4160	5911	4564	7000	11000
Net profit	2049	4113	3093	4700	7600

(Note) The fiscal year ending March 31, 2022, is a six-month period.

Furusato Choice's turnaround

Furusato Choice has taken effective measures to raise GMV. The company is working on supporting services such as: 1) OEM provision to au PAY; 2) services to support the launch of Hometown Tax sites; and 3) post-payment service settlement.

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Furusato Choice reported results for Q1 of -5% YoY, but has turned around since July. Its take rate will also be raised at the beginning of April 2023, commensurate with its value-added services. The plan is to raise the current average of 5.6% to the 9% level in two years. This will increase the contribution to earnings, and as a result, the probability of achieving the medium-term plan will also increase.

Progress of the medium-term plan

Looking at Q1 developments in line with the progress of the medium-term plan: 1) Furusato Choice is showing signs of a positive turnaround; 2) the launch of Publitech's Govmates and LoGo series is on a positive track, and the number of LoGo Chat installations by local governments has exceeded 1,000; and 3) two M&As are expected to contribute well to profits. If Govmates and LoGo series contribute to earnings, this would be an added benefit since this was not included in the medium-term plan.

Although it is called a three-year plan, strong progress has been made in Q1 toward management's vision of achieving the plan's goals in the first year and a half of the three-year period. With these measures, an operating profit of 11 billion yen for the next fiscal year is nearly in sight.

Dividend payout

The company paid a dividend of 4.5 yen per share for the first time in fiscal term ending March 31, 2022, and plans to pay a dividend of 7.0 yen per share for the current fiscal term. The dividend payout ratio is still prioritizing forward investments at 10.8% at 7 yen per share compared to 10.5% at 4.5 yen. The company is likely to consider raising the dividend to around 15% while increasing earnings and balancing the dividend with its investment plans.

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

New businesses taking off

As for the current medium-term plan (DJ2), it does not set low goals by any means. Investors may not yet be convinced. President Fukudome considers the first year to be a critical period. Once the M&A plan is set into motion, its results can be demonstrated to the market. Although the company has a general idea of the plan's execution strategy for internal growth, unexpected things are always likely to happen. Even still, the company is looking at allowances so that it can modify its trajectory with room to spare.

The capital and business alliance with the SBI Group concluded in March will eventually have a positive impact on Publitech's business development. The reach and degree of collaboration with regional banks will be strengthened.

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, since the majority of its profit is generated through Furusato Choice. However, the reality is quite different.

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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 large 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.

In NEW-IT, development of business with regional 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.

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 companies it acquires and initiate a new business model to lead by example.

Business is growing along fault lines. 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.)

Future valuation in the equity market

How should the company view the business and profitability of the Hometown Tax business? Based on the current donation value amount of between 210 and 220 billion yen collected through Furusato

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Choice, the take rate will be raised in the next fiscal year. Since the take rate is low in comparison to competitors, raising it will not place the company at a competitive disadvantage.

On the other hand, the Hometown Tax market (total amount of donations) expanded to 830 billion yen in fiscal 2021, compared to 670 billion yen in fiscal 2020. Among them, Furusato Choice is in the top tier, along with Rakuten and Satofull.

Our competitors have been directing customers to their sites with point accumulation programs, and their campaigns have clearly been effective. Instead of following suit, Furusato Choice is attempting to expand its OEM-based customer base by providing a platform for the Hometown Tax Program in cooperation with the likes of au and Docomo.

The Hometown Tax Program is a cash cow with the potential to grow profits even further. Profits generated from this business will be used for M&As to strengthen the foundation for the next stage of growth. Profits will grow substantially under the current three-year plan, but if it becomes clear that contributions to profits are coming not only from the expansion of the Hometown Tax Program, but also from other new areas, Change's growth outlook will shift significantly. If this can be visualized in the second or third year, the valuation of the company in the equity market will once again pivot.

How should one interpret the valuation of the company in the equity market? The relationship $ROE \times PER = PBR$ demonstrates that profitability and growth prospects determine the potential value (intangible asset value) of a company. Currently, the company stands at $ROE 14.2\% \times PER 29.0 = PBR$ of 4.1. If the growth rate is 30%, then it would be $30\% \times 40 = 12.0$.

In terms of the company's DJ2 operating profit target, the operating profit target of 15 billion yen excluding M&A is equivalent to annualized growth of 35%, while a target of 20 billion yen including M&A is equivalent to annualized growth of 50%. Therefore, if the company's future profit growth potential becomes more certain, the stock price should rebound significantly, reflecting the company's corporate value.

The company was inducted into the JPX Nikkei Index 400 at the end of August. It is also included in the FTSE Blossom Japan Sector Relative Index, an ESG index provided by FTSE Russell.

According to the current share price (as of September 16), PBR stands at 4.14, ROE at 14.2% (21.4% based on the next fiscal year), PER at 29.0 (similarly, 17.9 based on the next fiscal year), and the dividend yield is 0.4%. The synergy achieved with TRUSTBANK is evident, and new M&As will also contribute to profits, so expectations for growth are now even higher. 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.

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