

3962 Change Holdings

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

September 7, 2023

Tokyo Stock Exchange, Prime Section

Highlights

- In August, the company launched a takeover bid (TOB) of E-Guardian Inc. (TSE Prime Code: 6050), a comprehensive online security company. The total investment amounted to approximately 16.2 billion yen. The TOB is going smoothly, and the company expects to own almost 50% of E-Guardian in October to start this new business development. The company aims to be among the best in Japan in the area of cyber security. This will also contribute to the consolidated financial results in the second half of this fiscal year.
- For the current fiscal year ending March 31, 2024, the second year of its medium-term plan, the company plans to reach an operating profit of 11 billion yen and is confident that it will be able to achieve this goal. A review of the Furusato Choice take rate will likely make significant contribution. New fields in the training and development of DX professionals, private sector DX, regional revitalization, and public sector DX are also taking off one by one, and should continue to increase their contribution to earnings.
- In DJ2 of the three-year medium-term plan, 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 profit was 500 million yen in the fiscal term ended September 2018, but the company achieved 5.9 billion yen. This time, the company set a target of 15 billion to 20 billion yen in operating profit for the fiscal year ending March 31, 2025. With this M&A, the company's operating profit target is almost within reach.
- When promoting regional development initiatives, the key is to get local governments, regional banks, and local corporations to be involved as one. Is the business for local governments lucrative? If the company extends the business to 100 and then 300 local governments, and becomes the de facto standard, it can differentiate itself in terms of profits from the platform model and SaaS model. This value creation scheme is becoming clear.
- In March 2022, the company formed a capital and business alliance with SBI Group. As of the end of this June, SBI Holdings held 30.3% of Change Holdings' stock. That company will work with SBI, which has strong business relationships with regional banks, to promote regional development focused on DX. After DX for local governments, the company is now setting its sights on DX for regional banks.
- Moving forward, M&A activities to acquire client bases, products, and resources are likely to continue even further. The company is attracting the right set of talent and is expected to further increase its corporate value, so expectations for the next phase of its growth strategy are running high.

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.

Contents

1. Feature: Evolution of New-IT Transformation to Publitech
2. Strength: Accelerated growth in the Publitech Segment centering around TRUSTBANK
3. Medium-term business plan: Aiming to secure a leadership position in Japan through "DX × Local × Social"
4. Near-term business performance: Uninterrupted pace of rapid growth
5. Corporate valuation: Focus of attention on the next M&A

Corporate rating: A

Stock price (as of September 6, 2023): 2,049 yen

Market capitalization: 149.5 billion yen (72.959 million shares)

PBR: 4.06 ROE: 20.5% PER: 19.8 Dividend Yield: 0.6%

Accounting Period	Sales Revenue	Operating Profit	Profit Before Taxes	(Figures are in millions of yen, yen)		
				Current Profit	EPS	Dividend
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	3093	42.0	4.5
Mar. 2023	20021	5730	5653	3856	52.4	10.0
Mar. 2024 (Forecast)	40000	12000	12000	7500	103.7	12.0
Mar. 2025 (Forecast)	53000	16000	16000	9700	134.1	15.0

(Based on results as of June 2023)

Total Assets: 51.715 billion yen Net Assets: 36.613 billion yen Ratio of Net Worth: 70.8%

BPS: 504.1 yen

(Note) ROE, PER, and Dividend Yield are based on estimates for the current accounting period. The company executed a two for one stock split 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 ended September 2021 (figures in brackets are adjusted figures based on IFRS). Profit before taxes reported for, and prior to, the term ended 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 ended 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."

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.

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 corporate 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	
Aging 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"

Mission of Change Holdings (purpose as an enterprise) is to change people, change businesses, and 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.

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.

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	Mar. 2023 IFRS
New-IT Transformation Business							
Sales revenue	2742	2984	2299	2231	2816	1366	4956
Profit	786	602	719	608	927	392	1195
Investment Business							
Sales revenue	450	0	7	198	187	-216	162
Profit	288	-20	-7	177	166	-226	130
Publitech Business							
Sales revenue	3867	8713	3691	8116	12654	8990	14943
Profit	875	4190	1170	4555	6666	5471	7378
Adjustment	-868	-1145	-855	-1138	-1776	-1055	-2973
Total							
Sales revenue	7054	11692	5992	10542	15653	10140	20021
Profit before taxes	1081	3626	957	4203	5985	4582	5730

(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 ended March 31, 2022, is a six-month period due to a change in the fiscal year end.

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.

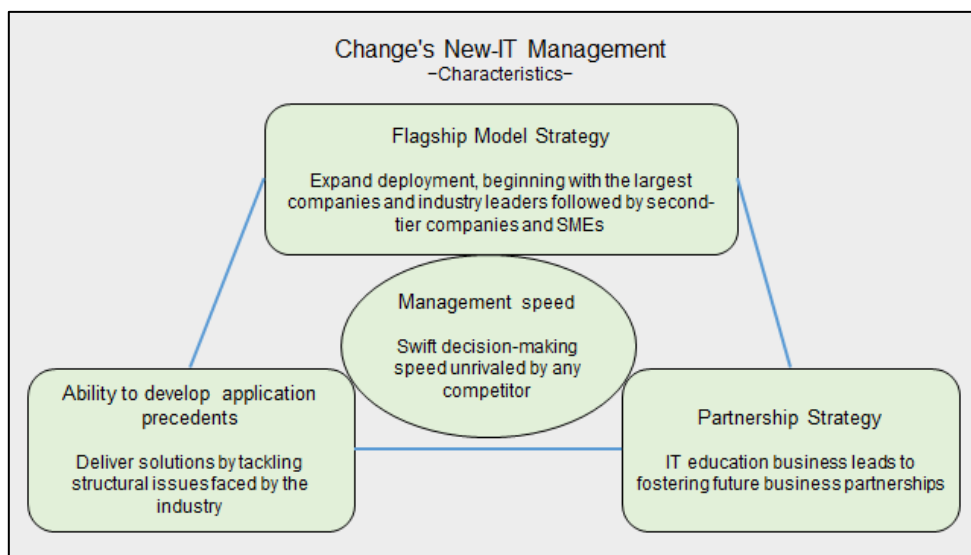
The company was established in 2003, listed on the TSE Mothers market in September 2016, reassigned to the TSE First Section in September 2018, and transferred to TSE Prime in April 2022.

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

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.

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.



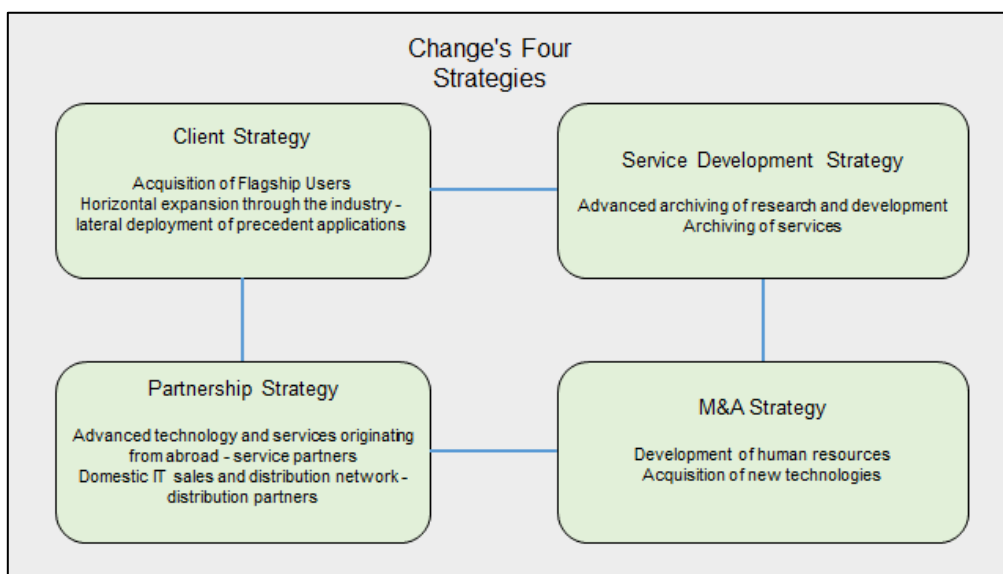
Change into two segments

There are two core businesses. 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 "Publitech Business," which is centered around TRUSTBANK and engages in regional revitalization with Furusato Choice, one of Japan's top-class Hometown Tax platforms, 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. 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, the third segment, was discontinued in April of the current fiscal year ending March 2024. The Investment Business was intended to increase corporate value through investments in IT firms that were demonstrating significant growth and were preparing to go public as well as business collaboration between the company and these companies. 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. The Investment Business has been recorded as investment securities from this fiscal year ending March 31, 2024, and the segment has been discontinued.

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.



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 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.

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

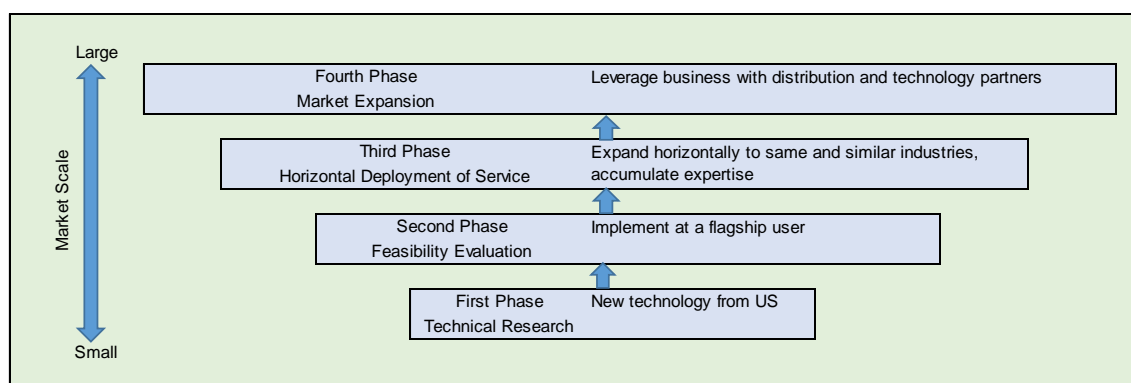
This report is compiled from the unique viewpoint of the analyst and, as a general rule, does not take the position of the analysis subject. This report has been prepared for the purpose of promoting investors' understanding of the subject corporation, and is not meant to provide recommendations, solicitations, 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.

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.

Phases of Marketing New Technology Promoted by Change



Marketing strategy for new technology

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

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 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.

TRUSTBANK is in the top class in terms of the amount of Hometown Tax payments processed. Currently, the site has more than 1,650 contracts with local governments, and the number of return 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 business pillar for the company. President Fukudome of Change Holdings 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—Deployment of Publitech Business

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.

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.

New-IT presents new potential in the Publitech segment. TRUSTBANK has dealings with over 1,650 local governments across the country, and these local administrations 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.

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,

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.

and it was concentrated in a certain number of local governments. The Hometown Tax has been operating under a new system from fiscal 2020, and has demonstrated strong growth.

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.

Donations Collected through the Hometown Tax

	Amount of donations received (100 million yen)	Donation count (x 10,000 cases)	Amount of donation per case (x 10,000 yen/case)	Number of applicants (x 10,000 people)	Amount of donation per person (x 10,000 yen/person)
Mar. 2015	388	191	2.03	44	8.8
Mar. 2016	1652	726	2.28	130	12.7
Mar. 2017	2844	1271	2.34	227	12.5
Mar. 2018	3653	1730	2.11	296	12.3
Mar. 2019	5127	2322	2.21	396	12.9
Mar. 2020	4875	2333	2.08	413	11.8
Mar. 2021	6724	3488	1.92	564	11.9
Mar. 2022	8302	4447	1.86	746	11.1
Mar. 2023	9654	5184	1.86	891	10.8
Mar. 2024 (Forecast)	11000	6100	1.80	1050	10.5

(Source) Ministry of Internal Affairs and Communications

(Note) Applicants are those applying for the resident tax exemption. (Forecast) represents analyst's forecast.

The company's take rate was increased from 3% in the first half of the fiscal term ended September 2020 (October to March) to 5% in the second half (April to September). The 3% is an average of various take rates that have been in place, such as 8%, 5%, 1% and flat, but in April, a uniform take rate of 5% was implemented. There are local governments whose take rates have gone up, and those that have gone down. The introduction of a 5% uniform take 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.

Major Portal Sites of the Hometown Tax

(cases, 10,000 pieces)

Name of site	Number of listed local	Number of return gifts	Group
Furusato Choice	1654	53.9	TRUSTBANK
Rakuten Furusato Nozei	1597	50.2	Rakuten Group
Satofull	1265	61.1	Softbank Group
Furunavi	1146	48.5	i-mobile

(Note) Based on a site that compares portal sites for Hometown Tax, etc.

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.

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.

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.

Transition to a holding company—Change Holdings

This past April, the company transitioned to a holding company structure. Underneath Change Holdings, the New-IT Transformation subsidiary, Change, Publitech company, TRUSTBANK, and acquired subsidiaries are linked. Currently, there are 11 major group companies, and this number is expected to increase in the future.

There are four business domains: 1) digital professional development domain and 2) private sector DX domain in the New-IT Transformation business, and 3) regional revitalization domain and 4) local government DX domain in the Publitech business.

The aim is to activate both centripetal and centrifugal forces under the management of a pure holding company. The centripetal force will be the overall allocation of resources such as funds and human capital, while the centrifugal force will accelerate growth by increasing the degree of freedom of our business subsidiaries. As new associates are brought into the company through M&A, the policy is to expand their management areas.

In terms of overall management, it is preferable to form a holding company. With a holding company, management capability will be defined by: 1) what kind of business segments and business portfolios it should establish and 2) how it will develop subsidiary management. A point of focus will be the company's ability to handle both (1) centrifugal and centripetal forces and (2) structure and human capital allocation.

Teamwork and corporate governance—Full engagement with ESG

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.

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.

President Fukudome, Vice President Itoh, and CFO Yamada are the three directors. Two independent outside directors and two independent outside auditors were newly appointed at the general meeting of shareholders this June. All three directors on the executive side will be reappointed. Of the five directors, three are on the executive side and two are external directors. All three auditors are from outside the company. Mr. Matsumoto, an outside director, is a business executive with extensive experience in IT-related industries. Ms. Takigawa, an outside director, is an accomplished female attorney.

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 see the company making progress in developing its corporate governance code to create the screening criteria for successors, institute a performance-linked compensation program, evaluate the effectiveness of the board of directors, and so on. Business models that incorporate the ESG ideal are being executed speedily.

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 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.

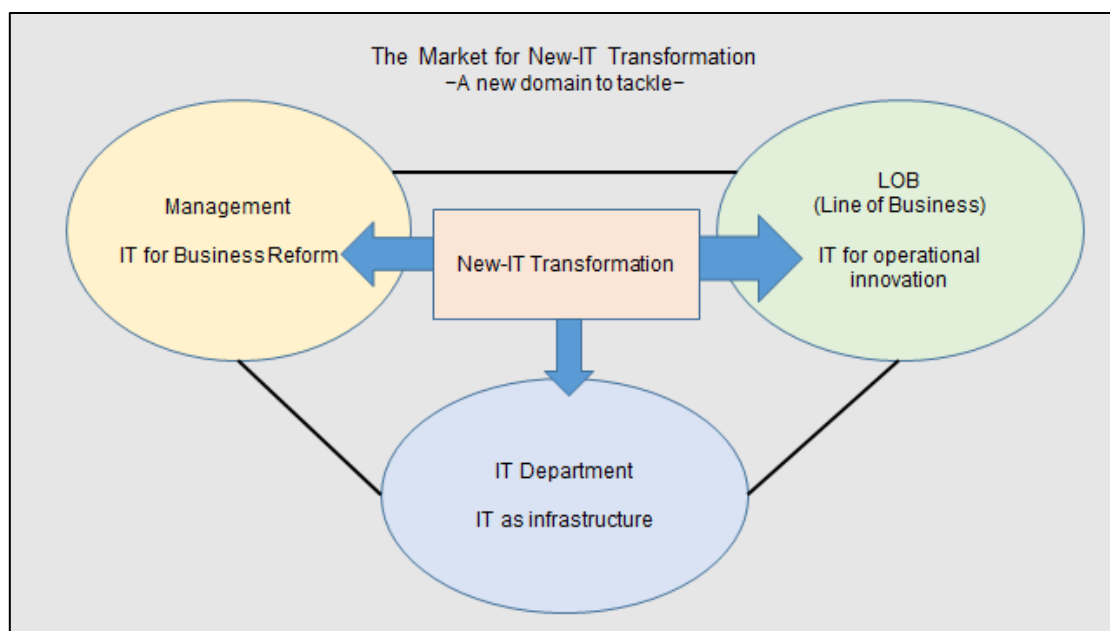
Furthermore, policies aimed at leveraging human resources will change in two aspects. The national government's policy will push for an environment that increases the opportunities for women, seniors,

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.

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 Holdings comes into play. The field of Publitech will expand even further.



Human Resources Development × New-IT

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

In other words, the company will develop its business with the aim of improving labor productivity. Productivity Improvement = People × Technology = Human Resource Development × New-IT. Automation will compensate for labor shortages, and people will take on new tasks. It will also be crucial to develop new workers who will be required in new industries.

Investment in the area of New-IT is active. Here, three areas are worthy of attention. First, the trend of digital transformation (DX) is gaining momentum in all industries. Second, investment in IT in the

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.

Line of Business (LOB) is expanding anew. Third, for work-style reform to succeed, new ways to apply IT to enhance productivity are becoming imperative. These are all directly tied to expansion of the company's business.

Long-term vision—Digitize & Digitalize Japan

The mid-term three-year plan is a single phase of the overall 15-year long-term vision. 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.

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.J85 - 3C: Concentration (focus on common issues), Collaboration (assemble confidants for regional revitalization) <p style="margin-left: 20px;">Confederation (business management with firm centrifugal force)</p>																					
Financial goal	<p style="text-align: center;">Three-year plan of DJ2</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">(Term ended March 2022)</th> <th style="text-align: center;">(Term ending March 2025)</th> <th></th> </tr> </thead> <tbody> <tr> <td>Sales revenue</td> <td style="text-align: right;">15530</td> <td style="text-align: right;">78000</td> <td rowspan="5" style="vertical-align: middle;">(million yen, persons)</td> </tr> <tr> <td>EBITDA</td> <td style="text-align: right;">5856</td> <td style="text-align: right;">21088</td> </tr> <tr> <td>Operating profit</td> <td style="text-align: right;">5248</td> <td style="text-align: right;">20000</td> </tr> <tr> <td>Net profit</td> <td style="text-align: right;">3729</td> <td style="text-align: right;">12825</td> </tr> <tr> <td>Employee</td> <td style="text-align: right;">325</td> <td style="text-align: right;">2500</td> </tr> </tbody> </table> <p style="font-size: small; margin-top: 5px;">(Note) The fiscal year ended March 31, 2022, is based on the sum of the second half of the fiscal year ended September 30, 2021, and the fiscal year ended March 31, 2022 (half term).</p>			(Term ended March 2022)	(Term ending March 2025)		Sales revenue	15530	78000	(million yen, persons)	EBITDA	5856	21088	Operating profit	5248	20000	Net profit	3729	12825	Employee	325	2500
	(Term ended March 2022)	(Term ending March 2025)																				
Sales revenue	15530	78000	(million yen, persons)																			
EBITDA	5856	21088																				
Operating profit	5248	20000																				
Net profit	3729	12825																				
Employee	325	2500																				

Exceeding the company's goal for the DJ1 three-year plan (terms ended 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).

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.

The company will aim to achieve the following financial targets by the end of fiscal term ended September 2022: sales of 19 billion yen (2.7 times that of the term ended 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.

Three business models

The company intends to further increase its speed of business during DJ2, its 2nd phase. There are three business models (BM) within Change. These are: (1) consulting model DX, (2) software as a service (SaaS) model DX, and (3) platform model DX.

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

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

The platform model aims to identify the optimum solution meeting each individual need by bringing together the providers and users of services in various forms, and matching these participants. The Hometown Tax 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

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.

of 5G for First-Time Learners" and "Consulting Package for Developing Digital Transformation Professionals."

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 ended September 2020, the Digital Professional Development Business contributed 262 million yen, which accounts for 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.

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 easily, and even analyze the collected data instantly.

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

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.

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.

LoGo Series is poised to become the undisputable leadership 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, rather they are the creators. 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.

TRUSTBANK captures the top place in the "Local Government IT System Satisfaction Survey 2022–2023"

In September 2022, TRUSTBANK, which produces the LoGo Series, was ranked No. 1 in the groupware/business chat category of the "Local Government IT System Satisfaction Survey 2022–2023" sponsored by Nikkei BP. It also ranked in the top place of the customer satisfaction survey (2022–2023) conducted by Nikkei Computer that was released in August 2022.

In less than three years since its release, LoGo Chat has been adopted by over 1,200 out of 1,788 local governments and has been highly rated for its ease of use. The tool allows users to exchange

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.

messages, files, and images within their local government agencies, with other local governments, and with outside businesses using PCs and smartphones. It is revolutionary in that it establishes links that elevate productivity and enable faster information sharing, decision making, and paperless operations.

In a field crowded with competitors, it is used by 300,000 local government personnel. The company did not enter this niche market by accident, but rather accurately grasped the needs of public offices and made its solutions available for use in their fields. It is important to note that the company did not merely develop a chat product, but rather gained an advantageous position through its ability to develop a business that would make use of it in real situations. This is where Change's strength lies.

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. In Japan, beacapp boasts a top-class track record 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.

In fact, beacapp uses its beacon solution to provide services to physicians to improve the way they work. The tool will provide information about the whereabouts of doctors and nurses, the location of medical equipment, and other information such as inventory statuses. The endeavor is striving to create a system that contributes to improving the way they work and the quality of the health care services they provide.

In June this year, the company launched "Join Work," a new service that links the sensor function of beacapp with "Join," a medical practice operations support application. Working condition reform for doctors will begin in April 2024. The company provides solutions to identify and optimize the working situations of health care workers. Beacons will be installed in hospitals, and "beacapp Here" will track the movements of staff and medical equipment. The communication function of "Join" will support this.

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

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

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.

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%.

Investment-related activities are incidental to the core business

The Investment-related 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) investment worth approximately 10% of capital based on this study has been made.

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
learningBox	Nov. 2022	Learning management system, quiz problem generating tool	Provision of integrated services	In possession
Graffer	Apr. 2023	Digital administration platform	Solution development	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 ended Sept. 2019
Voistart	Jul. 2018	AI speaker service for seniors	Regional revitalization business	Dissolved, transferred to NTT Data
Shikigaku	Sep. 2018	Organization management	Pooled marketing	Listed on Mothers in 2Q of fiscal term ended Sept. 2019, sold in 4Q of same fiscal term

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.

**Investment Business – Market Valuation of Listed Companies,
etc.**

(million yen)

Listed companies	Acquisition cost:	As of end of March 2022	As of end of March 2023	Valuation Gain/Loss
Headwaters	30	59	165	+105
AI CROSS	20	22	28	+6
GAUSS	29	29	-2	-27
Writeup	174	312	108	-203
PORT	199	203	484	+281
Total	455	627	789	+162

(Note) GAUSS is not publicly listed, so its value is based on fair value assessment.

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 ended September 2019. However, after the ensuing public stock offering, the same increased to 50.9%. The public offering executed May 2020 entailed issuing 1.6 million shares, amounting to 11.4% of the total outstanding number of shares. The stock was offered at 2,764 yen per share, and the amount of capital raised reached 4.26 billion yen. Net assets at the end of March stood at 2.3 billion yen, so it contributed to boosting the company's equity capital.

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.

Proceeds of 16.384 billion yen were scheduled to be allocated to the following activities to be executed by the end of the fiscal term ending September 30, 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.

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 has placed priority on 1) above and included the M&As of listed companies in its strategy. The ongoing TOB of E-Guardian is representative of this strategy.

At the extraordinary shareholders' meeting held in August 2021, 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.

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.

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&As. The company renewed this agreement in June of this year, and it will be maintained in order to be able to act quickly in case the need arises.

Balance Sheet

(million yen, %)

(IFRS)	Sept. 2019	Sept. 2020	Sept. 2021	Mar. 2022	Mar. 2023	Jun. 2023
Current assets	5742	11306	32956	35661	36699	30855
Cash equivalent	3784	7599	27690	30407	22968	22221
Trade receivables, etc.	1609	2921	3226	3430	10331	6893
Operational investment securities	140	541	1571	1356	1689	-
Non-current assets	5701	5787	6430	7067	16244	20859
Property, plant and equipment	215	189	183	423	2170	2208
Right-of use asset	299	85	220	246	378	621
Goodwill	3620	3759	4409	4409	9042	9268
Intangible assets	1275	1499	1288	1432	2219	2295
Total assets	11444	17093	39386	42728	52943	51715
Current liabilities	1797	5154	5545	5873	9651	8281
Trade payables	829	2494	2942	2976	5511	3863
Short-term borrowings	365	356	277	277	1261	1157
Income tax payable	154	1424	1317	1713	702	515
Non-current liabilities	3071	2532	1446	1349	3960	4021
Bonds payable, borrowings	2548	2286	1290	1162	1786	1670
Asset share of parent company	5854	7959	30455	33480	36477	36613
Interest-bearing liabilities	2914	2642	1567	1439	3047	2827
Ratio of interest-bearing liabilities	25.5	15.5	4.0	4.3	5.8	5.5
Ratio of net worth	51.2	46.6	77.3	78.4	68.9	70.8

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 was prepared to carry out large-scale M&As of 30 billion yen.

Cash Flow

(million yen)

(IFRS)	Sept. 2019	Sept. 2020	Sept. 2021	Mar. 2022	Mar. 2023
Operating cash flow	138	4634	3804	3742	-1143
Profit after taxes	362	3900	3701	3444	2075
Depreciation and depreciation cost	346	572	743	280	972
Trade receivables	418	-14101	-251	-203	-6206
Trade payables	-566	1663	419	33	2393
Operational investment securities	359	-401	-1029	214	-332
Investment cash flow	-3048	-269	-1189	-784	-7882
Property, plant and equipment	-46	-26	-142	-236	-2244
Intangible assets	-185	-254	-443	-487	-943
Acquisition of subsidiary shares, etc.	-2823	-36	-660	0	-4283
Financing cash flow	5638	-549	17476	-241	1608
Long- and short-term borrowings	2740	-392	-1201	-137	1763
Issuance of shares	4256	45	16415	4	200
Proceeds from stock issuance			3823		
Dividends paid					-324
Balance of cash equivalent at end of term	3784	7599	27690	30407	22968

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.

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

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.

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.

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	340	380	780
Operating profit	42	59	52	(200) 70 (57)	110	150	200

(Note) The fiscal year ended March 31, 2022, is based on the sum of the second half of the fiscal year ended September 30, 2021, and the fiscal year ended March 31, 2022 (half term). Figures within brackets are actual numbers.

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

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

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.

cost for local governments and regional enterprises will be sought. As a consequence, the company expects the value of its added services to increase as well. Second, the take rate will be increased. The take rate of competitors is around 10%, whereas that of TRUSTBANK is 5%, so the competitive advantage is evident.

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.

Significant upward revision of financial targets for DJ2

The medium-term three-year plan established new three-year goals to coincide with the change in the fiscal year end. The profit plan was revised significantly upwards, albeit six months later than the original date. The operating profit target is now 20 billion yen for the fiscal year 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.

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 in DJ3, such as information security, transportation, education, and housing, and in DJ4, medical care, welfare and nursing care, and nature and culture will be 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.

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.

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.

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.

Profit contribution will be multifaceted — M&As to materialize

The company has a target of 20 billion yen in operating profits for the fiscal year 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.

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

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. Any future deployment 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.

Two M&A deals

(1) LOGOS WARE

In July 2022, 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

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.

(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.

The three companies (Change, Digital Growth Academia, and LOGOS WARE) are cooperating to expand businesses for "Minna De." The various responsibilities, from providing platforms to contents, are divided among the companies. A platform for human resource development, "Minna De," has attracted more than 10,000 users in five months after its launch. The launch was successful.

LOGOS WARE will extend its business as the platform of "Minna De." We aim to achieve high profitability by expanding businesses as one group.

(2) DFA Robotics

In August 2022, 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.

The food delivery robots of DFA Robotics are growing its business. In Japan, 3,250 cat-shaped food delivery robots were implemented in 2,300 restaurants, which makes it one of the biggest companies in the country. Change possesses expertise in productivity analysis and could significantly expand the market size through the effective use of service robots.

DFA Robotics first introduced its four-way cleaning robots to hotels in Japan this July. A single PUDUCC1 unit performs four separate operations: (1) vacuuming, (2) cleaning with water, (3) sweeping, and (4) wiping dry. It also automatically supplies and drains water and recharges its batteries. It was first used in hotels that were short-staffed. Future growth can be expected.

(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 ended 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 Robotics's business results for the fiscal term ended 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 term ended October 31, 2022, the company generated approximately 1 billion yen in operating profit.

Looking at the corporate 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%.

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.

Assuming a total acquisition value of approximately 7 billion yen for both companies (4.4 billion yen in investment based on investment ratio), based on an EBITDA of 1.5 billion yen, an EBITDA ratio of 4 is not that 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 Robotics's service robots can be increased from 3,000 to 10,000, and then to 100,000, DFA will become the undisputed leader in the industry.

Commence execution of large-scale M&As — the TOB of E-Guardian

On August 2, the company announced a takeover bid (TOB) of E-Guardian Inc. (TSE Prime Code 6050), a comprehensive online security company. As of August 1, E-Guardian (EG) had a market capitalization of ¥21.8 billion and PBR of 2.96 = ROE 21.2% × PER 14.0.

The TOB will be completed by October 2, with a purchase price of 3,000 yen and a maximum number of shares to be purchased of approximately 4,316,000 shares at a price of 12.95 billion yen. Subsequently, the company will underwrite 1,527,000 shares through a third-party allotment of new shares. At the August 1 closing price of 2,099 yen, the total amount is 3.20 billion yen.

Change Holdings will invest 16.15 billion yen to increase EG's sustaining ratio to 45.0–49.9%. EG will remain listed.

The TOB of EG is progressing well. If it is completed on schedule, EG's business performance will be reflected in Change Holdings' B/S and P/L starting from the third quarter consolidated financial results. EG's business performance, with its sales of slightly more than 3 billion yen and operating profit of slightly more than 500 million yen, will be added to Change Holdings' financial results on a quarterly basis. Since non-controlling interests (approximately 51%) are excluded in calculating net profit, the net contribution on a quarterly basis may be slightly less than 200 million yen. In the next fiscal year, full-year business performance will make a full contribution.

Of the approximately 16.5 billion yen in acquisition financing for this M&A, the company provided cash in the amount of 1.5 billion yen and borrowed 15 billion yen from financial institutions (Mizuho and SMBC). When the company raised funds through its public offering in 2021, it promised to use 8.2 billion yen of the 16.4 billion yen it raised for M&As. The company decided to use 1.5 billion yen of the unutilized portion of that amount that still remained.

Expansion into Cyber Security — A Pillar of DJ3

If everything goes smoothly, an intermediate holding company for cybersecurity will be created under Change Holdings in December of this year, and EG will be positioned as a core company under that holding company. The company plans to become Japan's No. 1 cyber security company with EG as its main pillar.

President Fukudome has had business relations with EG's President Takatani for some time, and they knew each other well. President Takatani was on board from the beginning this time, and the project went smoothly.

EG plans to use the 3.2 billion yen in funds primarily to (1) hire cybersecurity personnel, (2) conduct marketing to strengthen its brand, (3) invest in offices and facilities, and (4) focus on M&As in the

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.

cybersecurity field. Entering the umbrella of Change will allow EG to expand its business domain quickly by taking advantage of Change's consulting capabilities and network.

For Change, it can establish a new core business in the cybersecurity field. With a large investment of 16.5 billion yen, Change will be able to include a highly profitable company in the group. This will also put Change on track to achieve the operating profit target through the M&As set forth in the mid-term plan.

Change intends to lead the restructuring of the cyber security industry and significantly enhance the reliability of this field in Japan. Japan's cyber security is insufficient, especially in various infrastructure facilities such as small and medium-sized private companies, local governments, hospitals, and others.

For DJ2, this capital and business alliance with EG is critically important. 1) Establish core business in cyber security. 2) Increase contributions to earnings through large-scale M&As. 3) Greatly enhance the experience level heading towards the next DJ3.

Cybersecurity-related incidents are happening everywhere. Ransomware (illegal intrusions that demand a ransom) has no end in sight. Japanese organizations are easily targeted. This needs to be stopped. Japanese organizations do not have the sufficient knowledge, technology, or funds to protect themselves from ransomware.

Considerable government support will be brought into this area from next year. The company will use this opportunity as an impetus to expand its business by supporting both the private and public sectors.

The acquisition of EG will be essential in making the security sector a new business pillar. The company plans to expand this area and achieve significant growth in DJ3, the third phase of the mid-term plan.

EG plans to achieve sales of 12,850 million yen, an operating profit of 2,195 million yen, an ordinary profit of 2,220 million yen, and a net profit of 1,500 million yen for the period ending September 30, 2023. If EG is able to achieve an operating profit of 3 billion yen in two years, it will further contribute to Change's consolidated business performance.

The company expects that EG will earn 40–50% of the additional 5 billion yen of contributions to profits through M&As in the fiscal year ending March 31, 2025.

These M&As are investments in new companies that have technological capabilities. On the other hand, as for the M&As of traditional companies with resources, President Fukudome considers it difficult to increase their growth potential even if they are brought under the company's umbrella since their organizations are often deteriorating.

Regional development initiatives—Making the business for local governments profitable

When promoting regional development initiatives, the key is to get local governments, regional banks, and local corporations to be involved as one. On top of this, new and efficient services will be created to promote initiatives for outsourcing public services. This secures the lives of local communities, revitalizes local companies, and allows regional financial institutions to expand their business coverage. One by one, Change's business model is taking shape in this area.

Is the business for local governments lucrative? This question may be addressed in the following manner. It is time-consuming and not profitable to create services for just one local government entity.

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.

It may result in pro bono work. However, the business foundation is developed after the services are standardized, converted into SaaS, and implemented in more than 100 government entities. Profitability increases once the number of local government entities reaches 300, and becomes a de facto standard when the number exceeds 800. It is vital to establish a good track record with 100 local government entities. Once various local governments include these services in their budgets, even small margins would show results as they accumulate. If the services can be developed using a SaaS model, it would yield high profitability with the network effects.

The LoGo Series is the first step, and Govmates and the energy business will also expand in a similar way.

The winning pattern of the Publitech Business is clear. Thus, going forward, resources will be promptly sourced and obtained to expand the value chain. The company easily attracts many talented personnel. The business operation is attractive and they can demonstrate talents in various areas.

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.

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.

In the area of human resource development and private sector DX, the collaboration with regional financial institutions is fostered. We have rolled out "Minna De" for financial institutions, which utilizes the service developed for SMBC as a precedent. Collaborations with Chiba Bank and Tottori Bank have enhanced the development of and entries into local businesses.

Responding to demand in the public sector

GAIA, an AI solution tool that supports DX for local governments, allows users to access the necessary information through 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 will expand the business model nationwide.

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.

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.

The shortage of workforce is also growing in the public sector. Looking at the number of local government employees in the past 30 years, the decline in workforce is significant in the areas of planning and development, general affairs, compulsory education, cleaning, and school lunch services. The work of general administrative staff can be divided as 35% to 45% core operations and 55% to 65% non-core operations.

Personnel costs amount to 3.5 trillion yen for core operations and 5.3 trillion yen for non-core operations. For both areas, the digital transformation of operations must be promoted to optimize processes and to promptly innovate operations. We will further promote DX platforms for these areas.

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

The Kishida Cabinet's "Vision for Digital Garden City Nation" is a tailwind 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.

In the area of public DX, TRUSTBANK (TB), a group company of Change, and its other partner companies have achieved significant results in projects funded by the grant of the Vision for Digital Garden City Nation. The power of Publitech is being further demonstrated.

Subscription model e-Learning Service, KaWaL—Formation of capital and business alliance with learningBOX

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.

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.

KaWaL launched its KaWaL Diagnosis service, a tool to objectively appraise the basic skills of working adults. It is a tool that supports human capital investment.

In November 2022, the company entered into a capital and business alliance with learningBOX. The company has e-learning platform technology which can be used in conjunction with the KaWaL series. The company will own a portion of shares through a third-party allocation.

Number of Local Governments That Have Adopted the LoGo Series

	(users)									
	May 2021	Jul. 2021	Nov. 2021	Feb. 2022	May 2022	Aug. 2022	Nov. 2022	Feb. 2023	May 2023	Aug. 2023
LoGo Chat										
Fee-free Use	249	383	452	518	386	520	611	654	523	597
Subscription-based Use	333	339	359	365	510	519	531	545	688	708
Total	582	722	811	883	896	1039	1142	1199	1211	1305
LoGo Form										
Fee-free Use	92	161	249	290	120	105	136	145	50	94
Subscription-based Use	110	112	131	138	310	327	341	369	480	485
Total	202	273	380	428	430	432	477	514	530	579

(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 1.5 billion yen in Annual Recurring Revenue (ARR) in the fiscal year ending March 31, 2024.

Results verifying the effectiveness of the implementation of LoGo Chat for local governments were released in September 2022. 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.

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

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.

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.

In June of this year, the Niigata Prefectural Government and 30 municipalities in the prefecture began using LoGo Chat to communicate with each other. They aim to improve communication between the prefecture and the municipalities and leverage information exchange to improve the execution of policymaking, streamline operations, and enhance services to residents. Vertical and horizontal collaboration among local governments has begun nationwide, and the LoGo series is becoming the standard.

LoGo Form's "First DX Promotion Pack"

Without coding (or additional software), LoGo Form can digitize tasks that were previously handled on paper. It has already digitized 28,000 procedures and has been used more than 10 million times. It has become the default option among the various existing electronic systems.

To further promote LoGo Form, the company has released the "First DX Promotion Pack." This is a package of application processes and reservation systems for practical use as well as a menu of services that has been packaged in a way as to allow various local governments to activate them immediately and without the need of outside assistance. This will further expand the range of services.

Over 70% of the population have obtained an Individual Number Card (My Number Card). LoGo Form and My Number Card will further strengthen their collaboration. Various forms can be easily created by employees on their own without programming. The use of electronic request forms will become more common at an overwhelmingly faster pace than before.

Use of Generative AI

A free trial of the bot version of the LoGo AI Assistant, which allows the use of the generative AI, ChatGPT, began in July in LoGo Chat. When users ask questions in a dedicated talk room, AI-generated answers are given in response. This meets the needs of local governments, and its use is expected to expand significantly. It can be used for 1) writing (summarizing, proposing compositions, adjusting expressions), 2) planning (proposing research and analysis methods and corporate perspectives), and 3) operations (providing guidance on tools and proposing work arrangements).

Training in the use of generative AI is also provided in lecture format, which Norimitsu Takahashi, President of Digital Growth Academia Inc., himself conducts. Mr. Takahashi is a data scientist with a graduate degree from the Tokyo Institute of Technology. He and President Fukudome have been colleagues since the company's founding. Having provided IT consulting and promoted the use of DX and AI, Mr. Takahashi is extremely specialized in this field.

Strengthen services for municipalities

In December 2022, the company concluded a capital and business alliance with HOPE, which has strong sales and marketing capabilities for government entities. HOPE provides services specialized for government entities, so there will be further collaboration in Publitech.

The alliance will be reinforced through LoGo Chat. LoGo Form will digitize processes. In addition, tailored solutions will be provided in areas such as nursing care, building construction and

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.

maintenance, welfare, and tourism. HOPE's sales force will become useful in these areas. We acquired less than 20% of HOPE's shares at approximately 600 million yen.

The company entered into a business alliance in April to streamline bidding and procurement operations for local governments through DX. Change Holdings will work with Jichitai Works and ULURU to put this into practice.

In April of this year, the company formed a capital and business alliance with Graffer. Graffer is a startup company that provides a digital administration platform and is strong in DX in the areas of tax collection and social security. The company will strengthen its presence in this field.

In addition, the business alliance with Ascentech formed in April will be instrumental in strengthening the SaaS security platform, BREAKOUT. Ascentech's BREAKOUT provides strong security for SaaS use. It will be effective in areas such as endpoint security, identity management, and SaaS management.

In May, the company formed a capital and business alliance with Asukoe Partners. Asukoe has compiled a database of administrative service information for 1,700 local governments nationwide, and provides this information and supports website solutions. Together, the companies will strengthen the development of solutions for public-private DX projects and draw the map for future developments.

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

In April 2022, Govmates commenced delivering DX services to local governments. With a staff of 50 professionals at the start, the company planned 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 will do so 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 from 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.

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.

Govmates to become a shared-use service

Govmates is shifting towards becoming a shared-use service. The company will not only create and sell the system but also promote the shared use of the system as a platform. Using the standard model (Ehime model) as a template, the company will make the same system available to many municipalities, so that we can increase the efficiency of our service and earn a decent profit as well. This trend is likely to become evident from the next fiscal year.

Govmates to support the digitalization of nursing care operations

Govmates is strengthening its support for the digitalization of nursing care operations. Based on Ehime Prefecture's efforts, it was determined that the benefits from improvement would be significant in the nursing care and welfare domains. The company will create a foundation to link data between the "caregiver certification operations" of local governments (reducing the burden of entering interview results and obtaining written opinions from attending physicians) and the nursing care field. (1) Detection and recording through sensors attached to caregivers, (2) data entered simultaneously with the delivery of care, and (3) confirmation of analysis results and images to be integrated and digitized. Once this system is established, the benefits will be tremendous.

The first step in Govmates' support for the project to digitize nursing care operations was the introduction of HitomeQ Care Support at eight nursing facilities. This links data between nursing care operations.

This system is a Konica Minolta product, but how can the company make the nursing care business run more smoothly? The company will provide business support to effectively satisfy this need. The system works by 1) installing behavior analysis sensors in the residents' rooms, 2) utilizing smartphones to monitor the residents, and 3) using data to manage service delivery operations. Image data will also be used for DX in the long-term care certification process. The system is expected to be applied to the analysis of data collected from multiple facilities.

As for Govmates, the 20-city model in Ehime Prefecture will be rolled out horizontally. An online application procedure management system for My Number Card 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. The company has been progressive in integrating and unifying its services.

Acquisition of Governance Technologies as a subsidiary

This April, the company acquired Governance Technologies as its subsidiary. Last October, the two companies formed a capital and business alliance and have now increased its shareholding ratio to 64.34%. The company will reinforce its administrative SaaS-type services.

The strength of Governance Technologies lies in SaaS for public administrations. For example, it has developed SaaS products to prevent fraudulent welfare payments. The company will work with Governance Technologies to expand its product line-up. Although the LoGo Series was developed in-house, one of the company's strategies for diversifying its services is to work more closely with companies that possess proprietary technology.

There are several approaches to joining and collaborating with a group. 1) A company that is already profitable and can be expected to contribute sufficiently to profits even if it is consolidated, 2) a

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.

company that is still in the red and cannot yet be consolidated even if it is recognized as a member of the group, and 3) a company that may collaborate on a business level but has not yet officially joined the group, etc. The company will consider the shareholding ratio in accordance with each of these cases.

Support for digitization of administrative procedures for the Tokyo Metropolitan Government

In the digitalization of administrative procedures for the Tokyo Metropolitan Government, the company was able to win the bid and secure another project in the fiscal year ended March 31, 2023. 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 begun to be horizontally expanded to Yonago City. The regional microgrid model is being rolled out in more than 30 projects across Japan and is expected to accelerate in the future. In September 2021, Akune City in Kagoshima Prefecture began working on a regional microgrid model. 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 year ending March 31, 2025.

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 pay 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

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.

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.

Rule changes for the Hometown Tax Program

The potential market size (TAM) of the Hometown Tax Program is 2.5 trillion yen, but to what extent will that materialize? For the time being, a market of 1 trillion yen can be expected. The assortment of return gifts is important, but the market is quite long-tailed and demand is extremely diverse, a central appeal 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 has increased take rates starting in the fiscal year ending March 31, 2024.

Rule changes for the Hometown Tax Program will begin taking effect in October. 1) The portion equivalent to the returned goods, including non-solicited expenses, will be less than 50% of the donation amount. In other words, the rules were redefined so that the municipalities' real income is at least 50%, and ongoing expenses, including the price of returned goods, shipping costs, portal fees, and non-solicited expenses (expenses such as commission fees) are no more than 50% of the donation amount. 2) The criteria for local aged meat and milled rice products were tightened, making it no longer sufficient to simply age the meat or mill the rice in the prefecture; the requirement for local products is that they are produced entirely within the prefecture.

This will not directly affect Furusato Choice. The 10% commission fee remains unchanged.

Strengthening new initiatives

At the same time, TRUSTBANK is also working to increase the amount that municipalities receive. Logistics costs are high in the mail-order model. TRUSTBANK is working hard to create a system that allows people to select goods and make donations on site at local store or dealers, just as if they were shopping. With Choice Pay, this can be done easily. The number of cases of Choice Pay being used has been growing rapidly over the past few years. Choice Pay makes it possible to make donations through the Hometown Tax Program when you are out enjoying a visit to a place right then and there. It can be said to be a shift from goods to services.

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.

The market for the Hometown Tax Program is growing steadily. Double-digit growth can be expected again this year. Furusato Choice is an industry leader in terms of the number of return gifts listed with over 500,000 items. The number of contracted municipalities has reached just over 1,600, which is more than 90% of the total number of municipalities in Japan.

As an incentive to attract customers, other companies grant points for donations made through their systems to the Hometown Tax Program. This would be a marketing cost. Should such a point system be used? Furusato Choice's policy is to pursue the original quality of its services without directly competing with other companies.

Furusato Choice, a portal site for the Hometown Tax Program, opened a store on Yahoo! Shopping. How many new users can be attracted through Yahoo! Shopping? This will bring about a certain positive effect.

The launch of Meibutsu Choice

Half of the business operators, which offer more than 500,000 of the return gifts available through Furusato Choice, do not have an online sales channel. Therefore, the company will create new business by using its e-commerce service, Meibutsu Choice, to support these companies in expanding their sales channels and developing new products.

TRUSTBANK launched a new e-commerce service, Meibutsu Choice, in the spring of 2023. This will support the expansion of sales channels for producers and businesses for the 420,000 return gifts featured on Furusato Choice, the company's Hometown Tax payment site. It will also assist in bolstering new development of regional products. The plan is to appeal to Furusato Choice's 5 million users and develop it into a leading e-commerce site.

Launch of Choice Pay

Choice Pay, launched in September 2022, is off to a strong start. In October 2022, the company participated in Takashimaya Department Store's Hokkaido Products Exhibition and made Hometown Tax payments available on the spot. The amount of contributions surged. Nearby Choice and Travel Destination Choice enable users to redeem points on-site and use them to contribute to the Hometown Tax Program.

Inbound tourism and workation initiatives

Last November, TRUSTBANK invested in BeA, an inbound tourism company. The company invested 150 million yen and acquired 17% of BeA's shares. BeA is a very competitive inbound tourism business in Greater China. Since promoting inbound tourism and relocation is essential for regional revitalization, the company will improve in these areas.

BeA is a service provider specializing in the travel business that has the ability to attract many customers in China online. It also has a certain level of presence on relocation matching platforms with local governments. Using tourism and workations to increase the number of people interacting with local populations will also help revitalize local communities. Tourism, relocations, and job introductions are all strong opportunities. It can also be said that dual lifestyles are a good fit for workers in the IT industry.

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.

Acquisition of Travel Zip

Travel Zip became a subsidiary in January this year. It specializes in tourism websites and has produced websites for 150 local governments. Inbound tourism is recovering, so tourism is a focal point for any region in its development. This allows Travel Zip to vigorously expand its business coverage. In this sense, we can boost our results.

The acquisition price for Travel Zip is not disclosed, but based on the recent financial statements, the invested amount is assumed to be approximately 1.5 billion yen. Change acquired 65% of the company's shares.

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

In January 2022, Change entered into a business alliance with Relic. Relic operates "ENjiNE," 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.

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 the first step, in October 2021, 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.

From DX for local governments to DX for regional banks

Following DX for local governments, the company will focus on DX for regional banks. The company is already working with regional banks and will be working intensely with the SBI Group.

It has kicked off an event with Chiba Bank using the metaverse. Chiba Bank started several events using the metaverse space. (1) A roundtable discussion for job hunters, (2) nutrition and finance knowledge seminars for new parents, and (3) a panel discussion for Chiba Bank's Twitter account.

The theme of the event will be digital and regional development using GAIA TOWN by GAIA Link, the official Japanese distributor of Virbela, a leading metaverse platform in the U.S. This is a trial run for collaboration with regional banks. In the future, this mechanism will be horizontally expanded to include large banks as well as regional banks.

Gunma Bank launched a crowdfunding site in July. This is a partnership with a regional bank in a non-financial business. The bank is trying to expand its regional trading company business. The bank will create new local products and services and disseminate them externally through this site. The company supports such a system.

Expansion of business scope through collaboration with SBI Group

In the collaboration with SBI HD, the two ways to promote business succession for regional IT system companies are 1) the utilization of funds and 2) the restructuring of business. Preparations for tackling these issues are now steadily underway.

A capital and business alliance with SBI was concluded. As of the end of March 2022, 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 2022, SBI HD's shareholding in Change reached 20.13%. As a result, Change became 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.

As of the end of June 2023, SBI HD's shareholding in Change reached 30.32%. Change will also utilize the strengths of the SBI Group to provide support for the revitalization of financial institutions, local governments, and local companies. Although President Fukudome concurrently serves as President and Representative Director of SBI Regional Revitalization Services, a subsidiary of SBI HD, no directors are dispatched from the SBI group to Change, and a certain degree of independence is ensured.

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 Regional Revitalization 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.

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.

President Kitao of SBI and President Fukudome of Change are on the same wavelength in terms of regional development. The SBI Group, which has been developing regions 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.

Change could strengthen the business and secure stability for shareholders. The founding members continue to own 20% of the company, and thus should be able to ensure management leadership.

In collaboration with regional banks, it also seems promising to expand environment-related business by taking advantage of Regional Revitalization 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

Utilization of the Hometown Tax Payment Program peaks during the October to December period, has its lowest intake during the January to March period, and then gradually recovers in the periods from April to June and July to September. 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.

Results for the fiscal year ended March 31, 2023 came in below plans

The company reported earnings for the fiscal year ended March 31, 2023 with sales of 20.021 billion yen, operating profit of 5.730 billion yen, profit before taxes of 5.653 billion yen, and net profit (attributable to owners of the parent company) of 3.856 billion yen. The fiscal year ended March 31, 2023 was a 12-month fiscal year, while the fiscal year ended March 31, 2022 was a 6-month fiscal year (change of fiscal term), so there is no comparison with the previous year.

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.

The reasons for the lower than planned sales of 5.7 billion yen versus the company plan of 7.0 billion yen were: 1) revenue lag and changes in revenue recognition methods in the Publitech Business, and 2) organizational changes, M&A, and development expenses in the main company that exceeded plans. The profitability of the business is not declining, but it is on a growth trajectory.

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	3175	153	9582	5095	4502	500
Mar. 2024 (consolidated)	5118	717						

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

Business is robust

Revenue from energy-related business was not reflected in the consolidated results for the previous fiscal year. Although sales were recorded in the results of the subsidiary (TRUSTBANK), they were not reflected in the consolidated P/L because they will not be considered as sales outside of consolidation until the investment ratio in SPC was less than 20%. Therefore, the operating profit for this portion was carried over to the next fiscal year.

The plan was for the total sales from Govmates business to be recognized at the end of the previous fiscal year, but management policy was partially altered. Between the option of selling it outright in a single transaction or applying a billable recurring model, the latter was chosen.

The company will own the service platform and recognize revenue through service fees. This way, the intellectual property (IP) will remain with the company and the service can be provided for a long period of time. As joint use expands, future profitability will increase. For the local governments, since they only need to pay a scheduled service fee, the temporary burden will be alleviated, and continuous service enhancements can be expected.

The company incurred 210 million yen in M&A expenses, 350 million yen in reorganization costs of the head office, and 240 million yen in system and other development costs, for a total cost of 800 million yen. This was about 450 million yen more than originally planned.

The business is progressing well. In New-IT: 1) with LOGOS WARE under its umbrella, the platform for training and developing DX professionals will be enhanced and the business will be accelerated, 2) DFA Robotics is a unique hardware + software business that is expected to further expand in the future, and 3) cooperation with regional banks is gradually taking shape. For the combination of local government, regional banks, and local enterprises, the company is making inroads into the DX of regional banks.

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.

In Publitech: 1) Logo Series is becoming de facto, 2) Govmates is close to completing a DX model, 3) Furusato Choice's next offensive is in full swing, and 4) projects are piling up in the Energy Business.

Furusato Choice's turnaround

Furusato Choice performed well. 1) The OEM-based customer base expanded to include auPAY, goo, and SAISON. 2) Collaboration with CCC MK HOLDINGS has enabled users to collect T points through donations. 3) Through newly launched concierge services targeted at affluent customers, the request processes for return gifts will be supported for free for users with substantial annual donation amounts.

Furusato Choice increased its take rate from April of this year. Furusato Choice has also introduced point redemption in response to its competitors, but has not implemented it on a full-scale basis.

The take rate was raised from 5% to 10%. Most local government entities have agreed and the rate increase will progress smoothly. In terms of Gross Merchandise Value (GMV), the company retains market share in the low 20% range.

The intensity of the competition of return gifts needs to be monitored. Even though it is a competition, the gap between the outflow from urban areas and the donated amount through the Hometown Tax Payment Program in rural areas can be an issue due to a lack of balance. Both in urban and rural areas, determined municipals exert their ingenuity to come up with new ideas. Furusato Choice will support this and ensure that the balance is maintained.

Earnings Projection by Business Segment

(million yen)

	Sept. 2021		Mar. 2022		Mar. 2023		Mar. 2024 (Forecast)		Mar. 2025 (Forecast)	
	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit	Sales revenue	Profit
NEW-IT Transformation Business	2816	927	1366	392	4956	1195	14000	3000	23000	5000
Investment Business	187	166	-216	-226	162	130	-	-	-	-
Publitech Business	12654	6667	8990	5471	14943	7378	26000	12500	30000	15000
Total business expenses (G&A expenses)		-1776		-1055		-2973		-3500		-4000
Total	15653	5985	110140	4582	20021	5730	40000	12000	53000	16000

(Note) Profit is segment profit. The fiscal year ended March 31, 2022, is a six-month period. The investment business was discontinued in mid-April of the fiscal year ending March 31, 2024. (The amount prior to mid-April is not stated.)

Significant increase in profits expected for this fiscal term ending March 31, 2024

The company's business plan for the fiscal year ending March 31, 2024, calls for sales of 34.0 billion yen (+69.8% year-on-year), an operating profit of 11.0 billion yen (+92.0% year-on-year), a before-tax profit of 10.97 billion yen (+94.0% year-on-year), and a net profit of 7.211 billion yen (+87.0% year-on-year). This was the plan before the consolidation of E-Guardian, and if this M&A goes well, the earnings forecast will be revised. Since Furusato Choice has increased its take rate (commission) and new areas will contribute more to earnings, results will likely exceed the plan.

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.

Change of segment — Discontinuation of investment business

In the B/S as of the end of the first quarter (end of June), the account title "Operational Investment Securities" was eliminated, and the amount was transferred to other financial assets. The breakdown was 1,706 million yen for the conventional portion and 1,598 million yen for the new one (Graffer, etc.).

Since the investment business was discontinued, the investment segment was also discontinued. Nevertheless, because the resolution was passed in mid-April, the portion recorded before mid-April will remain for the current fiscal year. The investment business in the first quarter is for the period before mid-April.

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	916	254	1708	418	1301	172
	Investment Business	-147	-158	-45	-50	42	34	312	304
	Publitech Business	1879	437	2317	603	7842	5426	2905	912
	Adjustment		-649		-653		-782		-889
	Total	2762	-18	3175	153	9582	5095	4502	500
Mar. 2024	NEW-IT	1747	494						
	Investment Business	127	126						
	Publitech Business	3243	895						
	Adjustment		-799						
	Total	5118	717						

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

Favorable start to the first quarter

The company reported earnings for the first quarter of the fiscal year ending March 31, 2024 with sales of 5,118 million yen (+85.3% year-on-year), operating profits of 717 million yen (-18 million yen year-on-year), before-tax profits of 1,136 million yen (-23 million yen year-on-year), and net profits of 855 million yen (+51 million yen year-on-year).

Strong results were reported for the first quarter. The improved profit of Furusato Choice, strong performance of the LoGo series, development in the IT human resource area, and initiatives for regional banks contributed to the results. The investment business also posted valuation gains.

The number of municipalities using LoGo Chat for a fee increased by 36% year on year to 708. The number of municipalities using LoGo Forms increased sharply by 48% year on year to 485.

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.

Earnings Forecast

	Sept. 2020	Sept. 2021	Mar. 2022	Mar. 2023	Mar. 2024 (Forecast)	Mar. 2025 (Forecast)
Sales revenue	10343	15653	11140	20021	40000	53000
Sales cost	2592	4065	2166	7498	16200	23300
Ratio of costs to sales	25.1	26.0	21.4	37.5	40.5	44.0
Gross profit	7950	11588	7974	12522	23800	29700
Gross profit margin on sales	76.9	74.0	78.6	62.5	59.5	56.0
SGA expenses	3757	5603	3392	7168	11800	13700
SGA expenses on sales	36.3	35.8	33.5	35.8	29.5	25.8
Operating profit	4203	5985	4582	5730	12000	16000
Operating profit on sales	40.6	38.2	45.2	28.6	29.5	25.8
Profit before taxes	4160	5911	4564	5653	12000	16000
Net profit	2049	4113	3093	3910	7500	9700

(Note) The fiscal year ended March 31, 2022, is a six-month period. Consolidated E-Guardian Inc. from the third quarter of the fiscal year ending March 31, 2024.

Progress in the mid-term plan

Developments in line with the progress of the medium-term plan are as follows: 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 with over 1,300 LoGo Chats installed by local governments, and 3) the three M&As are expected to contribute to profits. If Govmates and the LoGo Series contribute to earnings, this would be an added benefit.

In private sector DX, expansion centered on regional financial institutions is having an effect. The Energy Business is expanding while reducing its assets. In Govmates, the Ehime model will be offered as a shared-use service model.

LOGOS WARE and DFA Robotics are expected to contribute gradually more to profits this fiscal year, with sales exceeding 3 billion yen and an operating profit margin of 20%.

Govmates is expected to achieve annual sales of 3 billion yen, at the least. Projects worth 3 billion yen are piling up in the Energy Business segment. The company's policy is to generate profits so that the B/S does not balloon. Thus, new businesses are showing steady and rapid growth.

The business foundation is now in place for public DX. (1) A customer base of local governments has been established and (2) a wealth of business knowledge is now available to local governments. In response to this, (3) the company will gradually introduce commercial products and technologies that are highly effective when implemented. At the same time, (4) the company intends to increase the number of public DX associates and partners through cooperation with SBI Group and regional bank networks.

Taking a look at the competitive landscape, 1) various companies are entering the market of professional DX development. However, the company is focusing on the financial sector, where it can apply its onsite expertise to education.

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.

2) Even in the field of private sector DX, there are a number of companies entering the market, and it is becoming increasingly difficult for companies to differentiate themselves through the conventional use of Apple's toolset. The company is attempting to restructure its positioning with unique service robots and other products.

3) In the regional revitalization area of the Hometown Tax business, there is an ongoing battle revolving around reward points. However, the company is not getting involved, but instead, is striving to enhance its services. It is taking firm steps to improve profitability while keeping an eye on government regulatory developments.

4) By anticipating and supporting national and local government policies, the company has become by far the undisputed leader in public sector DX. Sler, a major player in the market that originally dealt in the public sector, is also seeking to collaborate with the company. This will allow the company to further enhance its position by adding new alliances to its ranks.

Looking towards the next term

The challenge is the fluctuation (volatility) in quarterly business performance. One is to increase profit contribution from businesses other than Furusato Choice. The other, looking at the year in two parts, is to increase the profit contribution from the first half of the year.

When envisioning operating profit of 15 to 20 billion yen, the immediate target is to generate 5 billion yen in the first half and 15 billion yen in the second half of the year. In the future, the balance will improve if the ratio is increased from 3:7 to 4:6. Similarly, it will be ideal if revenues other than Furusato Choice account for 30% to 40% of the total revenue.

With the addition of E-Guardian's business performance, balance will likely start improving. Furusato Choice will serve as the cash cow, while other business segments will act as growth drivers to drive the company's profit. This will allow the company to attain a high-growth image.

What will operating profit be in the next fiscal year? Compared to the operating profit of 5.2 billion yen for the fiscal year ended March 31, 2022 (full year), the plan is 7 billion yen for the first year, 11 billion yen for the second year, and 15 to 20 billion yen for the third year. Compared to this plan, the actual results for the first year were 5.7 billion yen, with the analysts' forecast for the second year at 12 billion yen and 16 billion yen for the third year. The company has set a goal of achieving extremely high growth, through internal and external growth, and is mostly on track to achieve this goal.

At this point, it is important to maintain these two views. The first is not to be excessively obsessed with the results figures. How robust is the business model from a mid- to long-term perspective? In this perspective, DJ2 is progressing quite well.

Second, since the third-year operating profit target is planned to be 15 billion yen in internal growth and 20 billion yen with the inclusion of external growth, the analyst's forecast of 16 billion yen in operating profit is consistent with the company's plan of 15 to 20 billion yen. The company should be commended for setting high goals in the first place, including M&A in its growth strategy, and moving forward to achieve these goals.

Dividend increase

The company paid a 4.5 yen dividend for the first time in the fiscal year ended March 31, 2022. In the fiscal year ended March 31, 2023, it added a 3.0 yen dividend to commemorate the 20th

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.

anniversary of its establishment, bringing the total annual dividend to 10 yen. For the current fiscal year, the company plans to pay a dividend of 12 yen based on assumed earnings growth. The dividend payout ratio is targeted at 10% to 15%, and the company plans to continue to steadily increase dividends.

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

New business takes off — Evolution of the business model and growth story

The capital and business alliance with the SBI Group that was concluded in March 2022 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.

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.

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.

The company anticipates three M&A patterns. The first is acquisition of management resources to acquire talent and a client base. 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 that it acquires and initiate a new business model to lead by example.

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.)

For Further Expansion — Valuation at the Stock Market

Change Group is aiming to achieve an operating profit of 20 billion yen. After that, the target will be 50 billion yen, and then 100 billion yen.

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.

The core business originated from New-IT and expanded into Publitech. It has continued to expand and now divided into areas such as DX professional development, private sector DX, regional development, and public sector DX. This will be further expanded and strengthened. Cyber security will become the next pillar. The target is to further strengthen the core businesses so that they can generate an operating profit of 10 billion yen, and to generate a few hundred million yen each from peripheral businesses. Growing those businesses to be the core businesses for the future will lead to a fast-paced growth. President Fukudome is aiming quite high. We will pay closer attention to the acceleration of business after transitioning to a holding company.

How to evaluate corporate value? In the formula $PBR = ROE \times PER$, the current PBR level is $4.06 = ROE 20.5\% \times PER 19.8$. Since profitability will increase, the appropriate level for the time being is $ROE 25\% \times PER 25 = PBR 6.25$, i.e., the share price is expected to rise to 3,000 yen.

What happens beyond this? It is important to expand growth areas and lay the groundwork for the next new trend. A strategy to raise the PER to 30–40 can be anticipated.

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. Once this can be visualized, the valuation of the company in the equity market will once again pivot.

The company was inducted into the JPX Nikkei Index 400 at the end of last 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 6), PBR stands at 4.06, ROE at 20.5% (26.5% in the next fiscal year), PER at 19.8 (15.3 in the next fiscal year), and the dividend yield is 0.6%. The synergies achieved among the group companies are 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.