
Financial Results for the 1st Quarter of Fiscal Year Ending March 2024

CHANGE Holdings, Inc.
Security Code: 3962

August 14, 2023

**CHANGE
HOLDINGS**

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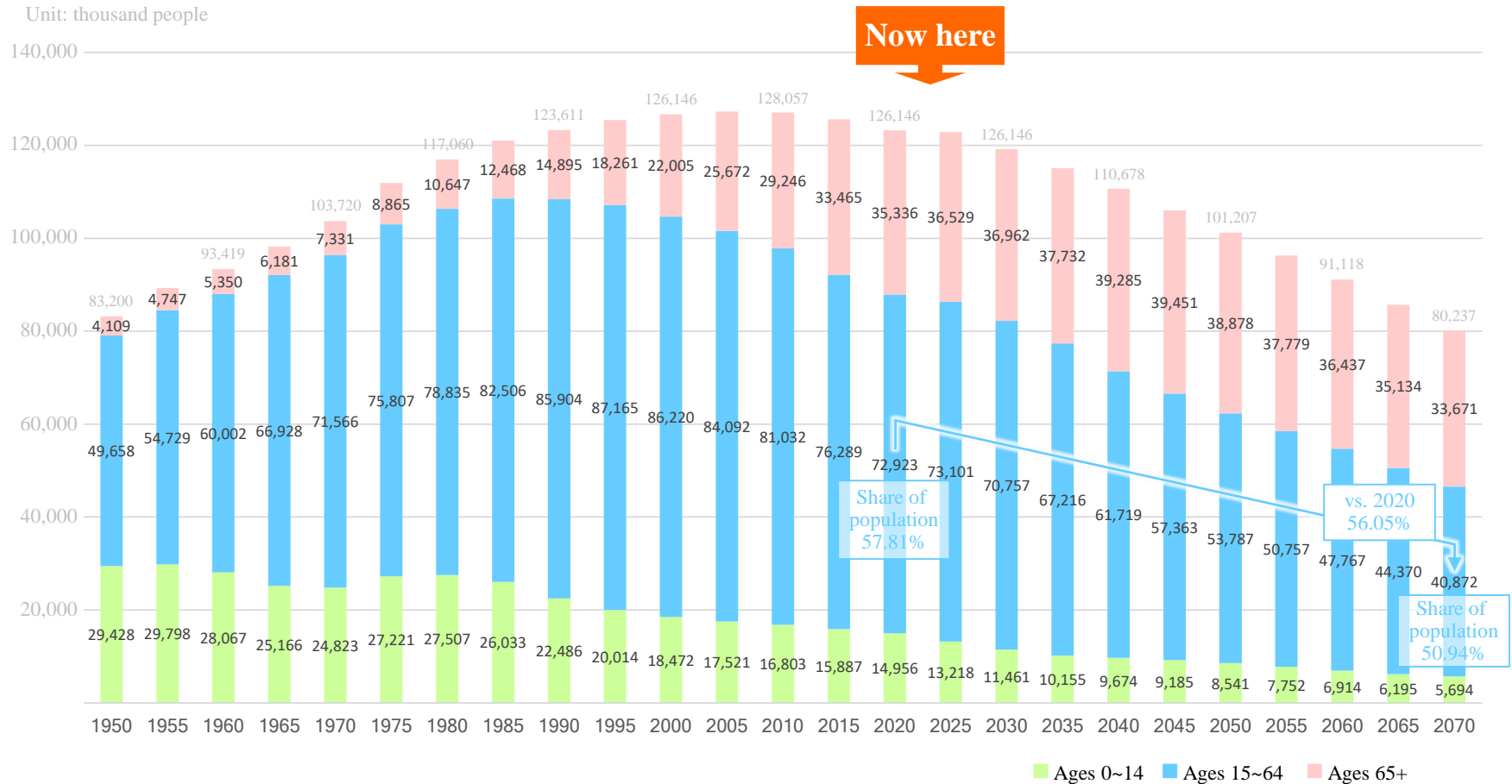


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**Change People,
Change Business,
Change Japan.**

From Challenge to Crisis

||| **Japan's working-age population will roughly halve in the next 50 years and fall to less than half of the total population.**



Source: National Institute of Population and Social Security Research "Population Projections for Japan (2023)" (https://www.ipss.go.jp/pp-zenkoku/j/zenkoku2023/pp2023_gaiyou.pdf)

【From 2025】 Figure 1-3: "Total population by age group (0-14, 15-64, 65+) and age structure coefficient: low fertility (medium mortality) projection"

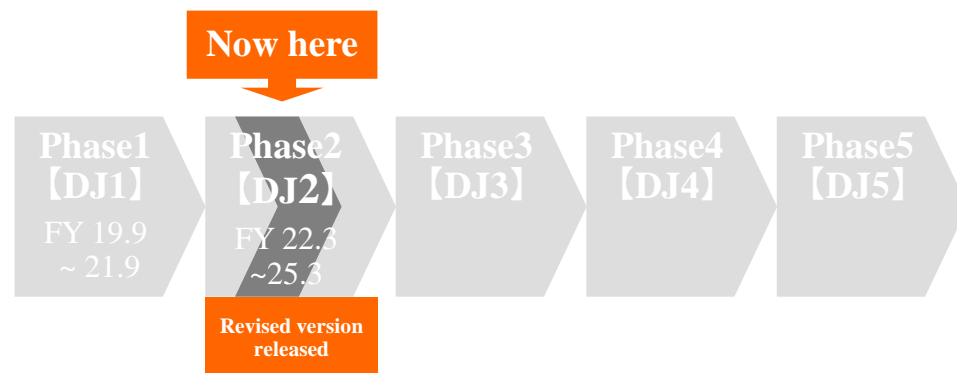
【To 2020】 Compiled by CHANGE based on Table 1 "Total population by age group (0-14, 15-64, 65+) and age structure coefficient: 1950-2020"

Our Path Drawn

||| **Currently in Chapter 2 of establishing a digital era in Japan.**



**Digitize
&
Digitalize Japan**



- ||| We will improve Japan’s productivity through the digitalization/digitization of business models and business processes and the development of digital human resources.
- ||| For achieving “Digitize & Digitalize Japan”, we will continue to work until Phase 5, confront the social challenge of declining population, and will be a leader in overcoming the present national difficulty in spite.
- ||| Due to the change in fiscal year end, we have released a revised version of the Mid-term Business Plan’s current Phase 2, DJ2.

※The revised Mid-term Business Plan [DJ2] can be found here

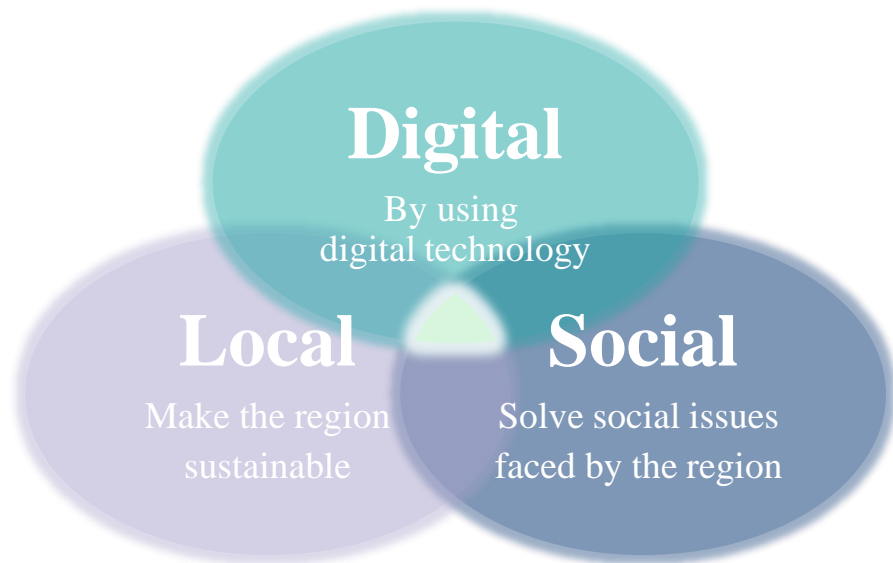
<https://ssl4.eir-parts.net/doc/3962/tdnet/2123311/00.pdf>

※Some targets were revised at end of FY23.3. For details, please refer to the financial results materials

<https://ssl4.eir-parts.net/doc/3962/tdnet/2281148/00.pdf>

Focus Domain for “DJ2”

- ||| We are shifting to “Local” as preparation for [DJ2].
- ||| “DX × Regional Creation” is our sweet spot for Change Japan.



- ||| We will focus on “non-Tokyo area” which accounts for about 70% of GDP.
- ||| We will decide that the most important thing is to spread the benefits of digitalization to “Local”.
- ||| We will take on the challenge of solving critical and urgent regional issues that threaten sustainability.
- ||| We will remove the “human resource shortage” bottleneck in expanding DX in local areas.

Our Group's Business Domains

||| Comprises two primary domains: **NEW-IT Transformation (private sector)** and **Publitech (public sector)**



NEW-IT Transformation

Publitech

Private-sector DX

Human resources

Regional creation

Public-sector DX

DFA Robotics



beacapp



CHANGE



People×Technology

Public-sector DX

Human resource development



Digital Growth Academia



Logosware LOGOSWARE



Trust Bank



Hometown tax

Energy

Publitech

Orb



LoGoチャット
LoGoフォーム

Governance Technologies



GovernanceTechnologies

Travel Zip

Travel Zip

Govmates



FY24.3 Q1 Financial Results Summary

- ||| **Investments made in previous years are beginning to yield and make great progress.**
- ||| **Pre-tax profits far exceeded the previous record for April-June quarter.**

Beginning to reap from prior investments

- ||| **Strong growth in both existing businesses and new consolidations**
(Y.o.Y: revenue approx. +85.3%, gross profit approx. 2x)
- ||| **Operating profit also returned to the black, amply sustaining high investment levels**
(Approx. 710 million in Q1, exceeding the H1 cumulative target of 500 million)
- ||| **Valuation of stock holdings also rebounded, contributing to record-high pre-tax profits**

Pursuing large-scale M&As

- ||| **Currently making takeover bid for E-Guardian**
- ||| **Security has become a key piece for simultaneously targeting both the public and private sectors**
- ||| **Success would also put us within reach of final DJ2 targets for FY25.3**

Q1 Overview

Future Prospects

Q1 Overview (Consolidated)

||| Despite planned profits being weighted toward the second half of the fiscal year, strong Q1 performance has already exceeded the H1 target.

(based on operating profit)

	H1	H2	Full period targets		Q1 results	
	(Apr-Sep)	(Oct-Mar)	amount	%	amount	%
(Unit : million yen)						
Revenue	11,139	22,860	34,000	100.0%	5,118	100.0%
Cost of sales	4,838	6,514	11,352	33.4%	2,403	47.0%
Gross profit	6,300	16,346	22,647	66.6%	2,715	53.0%
SG&A Expenses	5,808	5,868	11,677	34.3%	1,998	39.0%
Operating profit	500	10,500	11,000	32.4%	717	14.0%
Financial income	0	0	0	0.0%	435	8.5%
Financial expenses	15	13	29	0.1%	16	0.3%
Profit before taxes	484	10,486	10,970	32.3%	1,136	22.2%
Income tax expense	153	3,300	3,454	10.2%	374	7.3%
Net profit	331	7,185	7,516	22.1%	762	14.9%
Profit attributable to owner of parent	406	6,805	7,211		855	
Loss attributable to non-controlling interests	△75	380	304		△92	
(ref) EBITDA	907	10,995	11,903	35.0%	1,007	19.7%

Breakdown by business segment

Q1	NEW-IT Transformation	Investment	Publitech	Adjusted
(Unit : million yen)				
Revenue	1,750	127	3,243	△3
└ External revenue	1,747	127	3,243	—
└ Inter-segment revenue	3	—	—	△3
Segment profit	494	126	895	△799

※ Due to the rounding, the sum value may not match

※ Adjustments to segment profit are mainly general and administrative expenses corresponding to corporate expenses

||| Solid performance in all domains

- Revenue Y.o.Y approx. **85.3%** increase
- Gross profit Y.o.Y approx. **2x**

||| Generating sufficient profits to sustain high investment levels

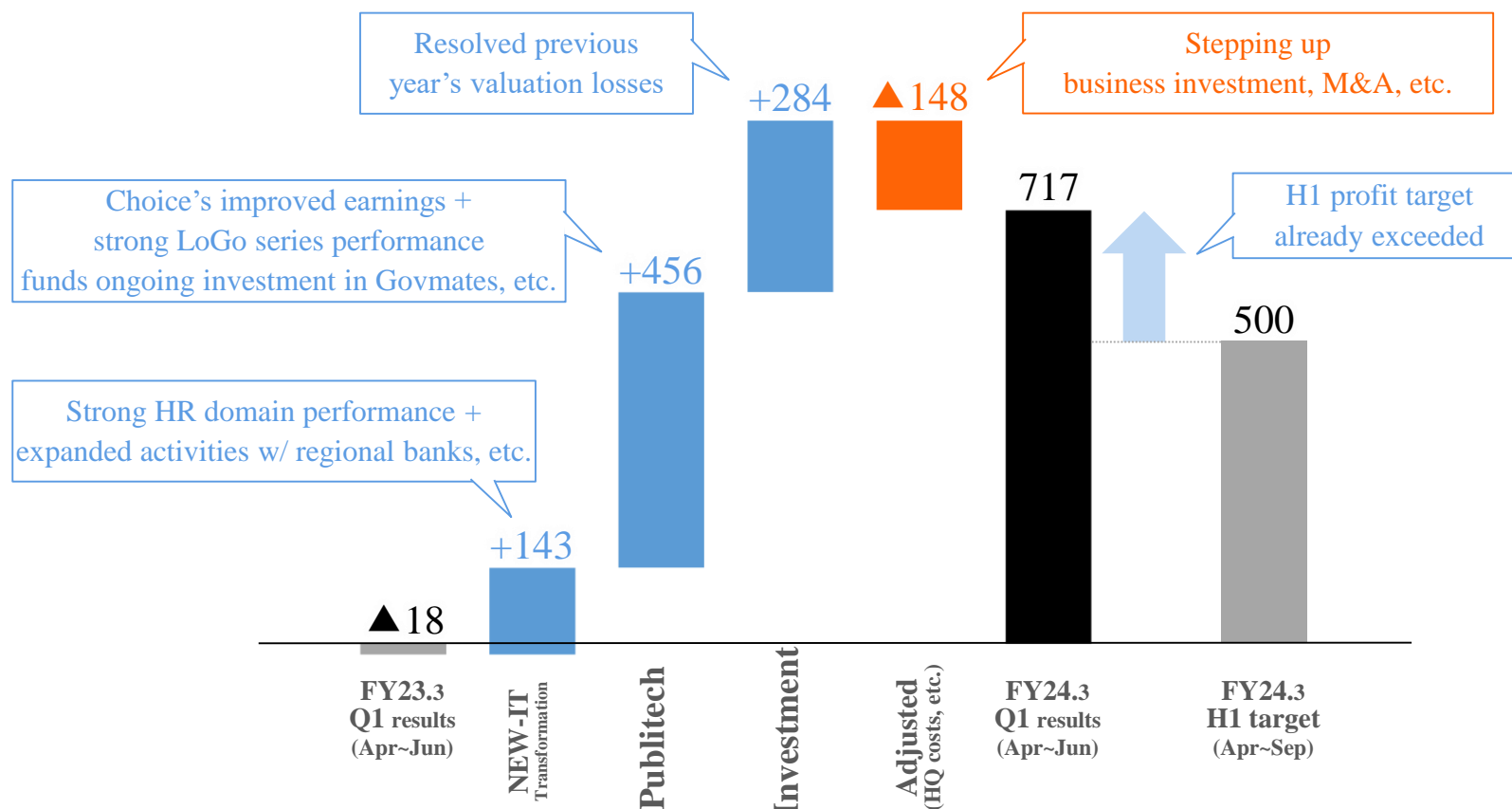
※ Although the decision to discontinue the Investment segment is finalized, these figures include the first 13 days of the quarter (up to April 13, the day before the board resolution)

Overview – Supplementary

- Returned to profit after previous Q1 deficit due to Investment segment valuation losses.
- Will maintain investment momentum, funded by the profits of strongly performing existing businesses.

Year on year – Increase factors

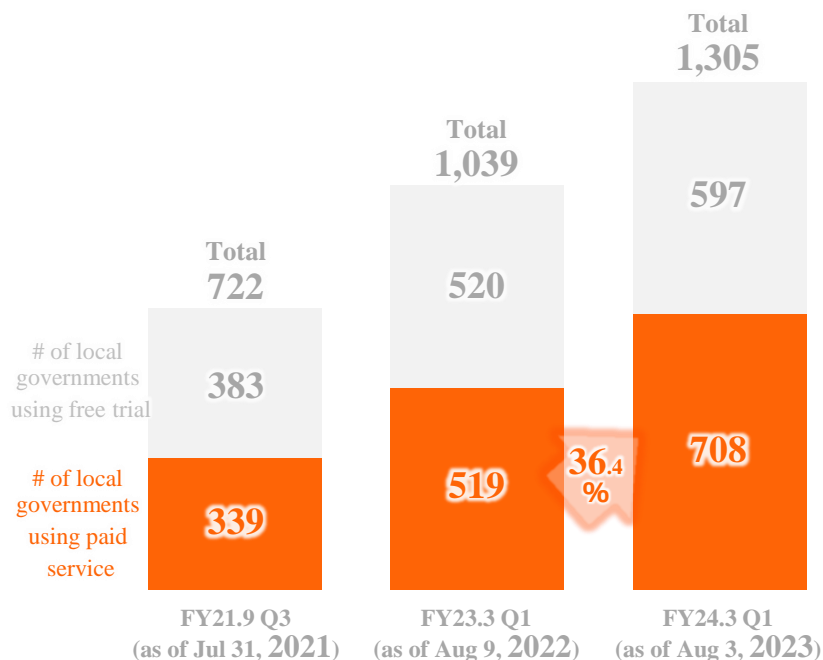
※ Operating profit
※ Unit: million yen



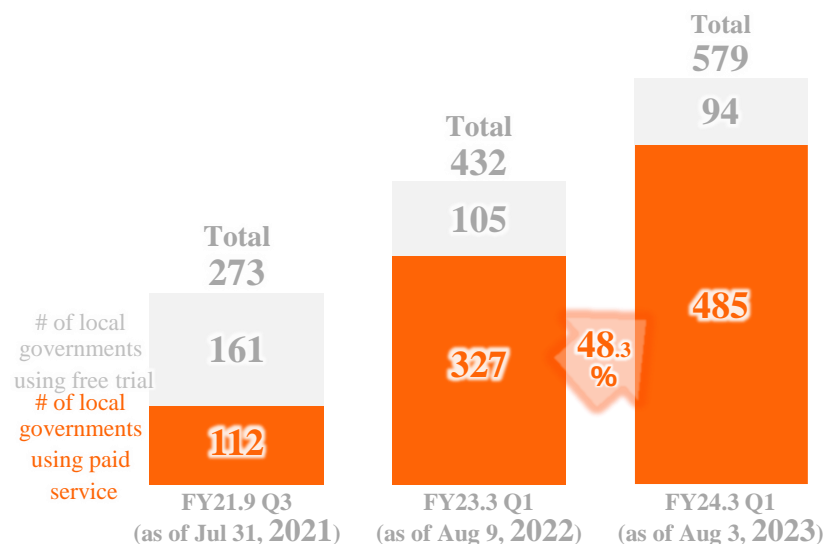
Q1 Key Topics ~ LoGo series' continued strong performance ~

- ||| Continuing to spread as core services for digitalizing local government operations.
- ||| Their benefits are also growing through network effects, including municipal partnerships led by prefectural governments.

LoGoチャット LoGo Chat



LoGoフォーム LoGo Form

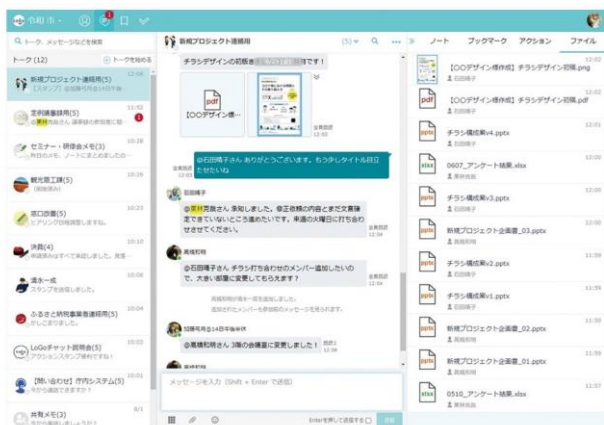


※ Including some related organizations

※ Due to a change in the fiscal year end, FY22.3 was an irregular six-month period ending after Q2

III The prefectural government and 30 municipalities in Niigata began a trial collaboration using LoGo Chat. (June 14)

Internal use → municipality collaboration



※ LoGo Chat demo screen

- Phased trial collaboration between the prefectural government and 30 Niigata municipalities began in June 2023
- Enables closer sharing of information and policy planning between prefectural and local governments
- Aiming to boost operating efficiency and further improve resident services throughout the region

User feedback



Niigata Prefecture employee

Whereas LoGo Chat allowed us to communicate closely and quickly within the prefectural government, communication with municipalities still primarily relied on phone calls, e-mails, and meetings. This led to a **gap in the frequency of our internal communication and contact with local governments**. We felt that communicating with these municipalities via chat could improve efficiency. In fiscal 2022, we trialed working with 30 Niigata municipalities over LoGo Chat for procedures related to My Number cards. Handling work promptly via chat rather than e-mail, telephone, or meetings not only **led to effective policy planning**, but also proved **very popular with municipal staff, who appreciated the ability to easily consult the prefecture and the convenience of swift, close dialogue**. In fiscal 2023, we have expanded the scope of collaboration to include the shifting of administrative procedures online. By strengthening collaboration between the prefectural and local governments, we will work to further improve efficiency and spur more vigorous policy planning discussions.

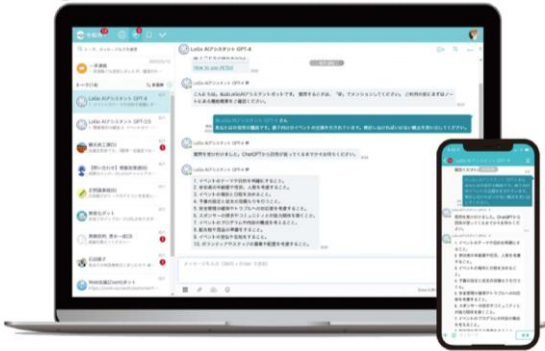
30 participating municipalities

Niigata, Nagaoka, Sanjo, Kashiwazaki, Shibata, Ojiya, Kamo, Tokamachi, Mitsuke, Murakami, Tsubame, Itoigawa, Myoko, Gosen, Joetsu, Agano, Sado, Uonuma, Minamiuonuma, Tainai, Seiro, Yahiko, Tagami, Aga, Izumozaki, Yuzawa, Tsunan, Kariwa, Sekikawa, Awashimaura

||| We launched free trials of LoGo AI Assistant Bot, a service that enables local governments to use ChatGPT. (July 11)

Over 100 inquiries
within a month of announcement!
Numerous trials underway!

LoGo AI アシスタント bot版



- A service that enables ChatGPT use within LoGo Chat
- Amid growing interest, we have begun by meeting the requests of those who first wish to test applicability and effectiveness in government operations
- Before launch, we held lively discussions with user groups on LoGo Chat, building anticipation
- Full-scale rollout planned from October
- We envision the following initial usage cases

Municipal press releases & media exposure

Mutsu (Aomori), Nerima (Tokyo), Sodegaura (Chiba), Iwaki (Fukushima), Shiga Prefecture, Ehime Prefecture, Fujiidera (Osaka), Tatebayashi (Gunma), Tobetsu (Hokkaido), Takahata (Yamagata), Matsusaka (Mie), Kosai (Shizuoka), Sanda (Hyogo), and others

Document preparation

Summarize text

Suggest document structure

Suggest writing structure

Suggest writing prompts

Fine-tune expression

Translation

Planning

Suggest research/analysis methods

Suggest planning perspectives

General duties

Guidance on tool use

Suggest task planning

||| Began offering training on the key points of generative AI and its impact on operations. (July 10)



- Understand the basic functions and features of generative AI, most notably ChatGPT
- Study examples of how generative AI can be used to boost efficiency, along with precautions for use
- Despite the high expectations, users need the literacy to provide clear commands, evaluate the generated results, etc.
- Instruction by Digital Growth Academia CEO Norimitsu Takahashi
- Offered in both online and in-person formats

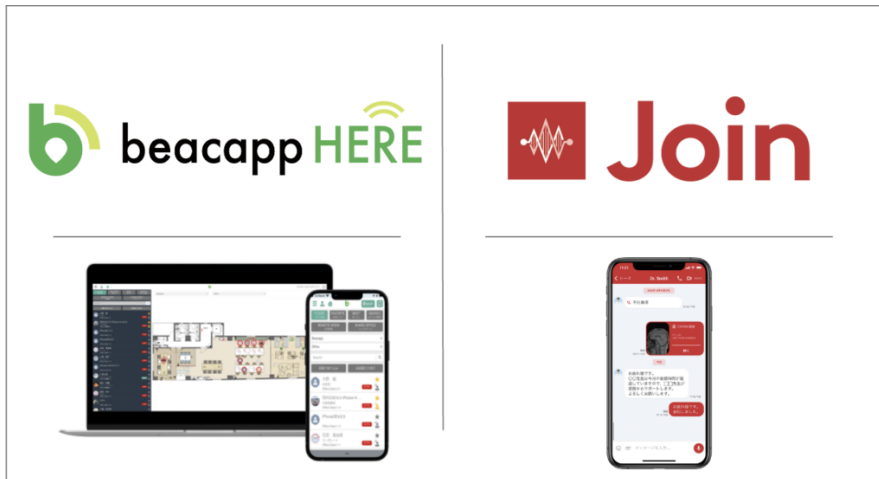
- ||| **4-in-1 cleaning robot PUDU CC1 employed in Japanese hotels for the first time** (announced July 24)
- ||| **Following on from dining, we are delivering the benefits of robotics to other priority industries with significant worker shortages.**



- We have begun distributing the PUDU CC1, a 4-in-1 cleaning robot that integrates sweeping, scrubbing, vacuuming, and dust mopping
- A single unit performs all tasks, which traditionally required multiple appliances and much time, while also automating related operations such as drawing water and charging
- While drastically reducing the labor involved, the robot also improves cleaning quality by mapping areas and automatically generating reports
- Deployed in Japanese hotels for the first time
- **The ryokan/hotel industry has suffered the worst labor shortages of any sector for six consecutive months***. Given the problem's urgency, robots are expected to play a growing role

*According to a Teikoku Databank survey of corporate labor shortage trends (April 2023), 75.5% of ryokan/hotel industry companies lack sufficient full-time employees, ranking highest among 51 industries for the sixth consecutive month. The fact that the figure is 23.1 points higher than a year earlier, and up 52 points from April 2021, indicates the issue's pressing nature.
(<https://www.tdb.co.jp/report/watching/press/pdf/p230502.pdf>)

- ||| **Launched Join Work in collaboration with medical care support app Join.**
(announced June 27)
- ||| **Delivering digital solutions to a healthcare industry faced with tightening labor regulations and staffing pressures.**



The use of Beacons and various sensors to collect behavioral data helps improve productivity and visualize workplaces, including offices, hospitals, distribution centers, factories, retail stores, construction sites, universities, and events.
Beacapp Here products: <https://jp.beacapp-here.com/>

An app that offers medical professionals a highly secure communication environment. Regardless of their location, specialists can check medical images or test data, hold online meetings, and issue instructions to doctors in the hospital, reducing emergency callouts outside working hours.
Join products: <https://www.allm.net/join/>

- Doctors workstyle reform will begin in April 2024
- The working conditions of healthcare professionals on round-the-clock rosters have been seen as difficult to assess and optimize
- There is a need for less labor-intensive, real-time monitoring and support for medical care work
- With Beacons placed at key locations in the hospital, beacapp HERE tracks the movements of staff and medical equipment
- Join's communication function assists with overtime handling, remote treatment/work, etc.

- ||| **The Gunma Bank Group launched a crowdfunding site.** (July 13)
- ||| **Non-financial sector collaborations with regional financial institutions continue to flourish.**

「つなぐカ」で、地域に新たな価値を"プラス"



- 1 事業者さまに新たな価値をプラス
- 2 支援者さまの新しい発見をサポート
- 3 事業者さまと支援者さまを「つなぐ」サイト



- From April 2023, Gunma Bank launched new businesses, including a regional trading company, under Gungin Consulting
- The website's aim is to create new local products and services, and promote them widely in the prefecture and beyond
- Seeking to add new value to the regional ecosystem by connecting local businesses with consumers keen to support homegrown projects

Q1 Overview

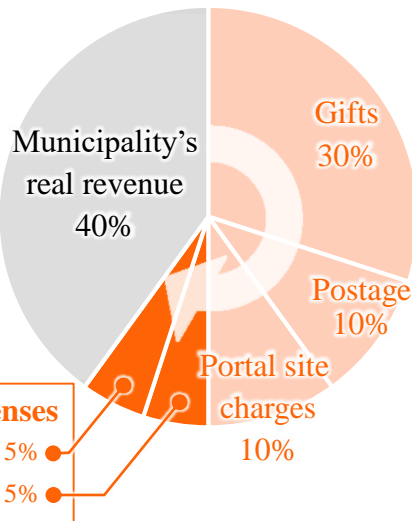
Future Prospects

Regional Creation Domain ~ Hometown tax rule changes ~

- ||| Key points from the rule changes that will take effect from October 1.
- ||| Having always aligned our business with the scheme's intent, the impact on us will be relatively minor.

All expenses to account for less than 50%

Total expenses exceed 50%



- Redefined expenses to ensure that the total, including the previously grey area of miscellaneous expenses (excl. advertising, etc.), does not exceed 50%

Stricter "local product" standards for aged meat & polished rice



Produced in pref. **A**



Aged in pref. **B**



Grown in pref. **C**



Polished in pref. **D**



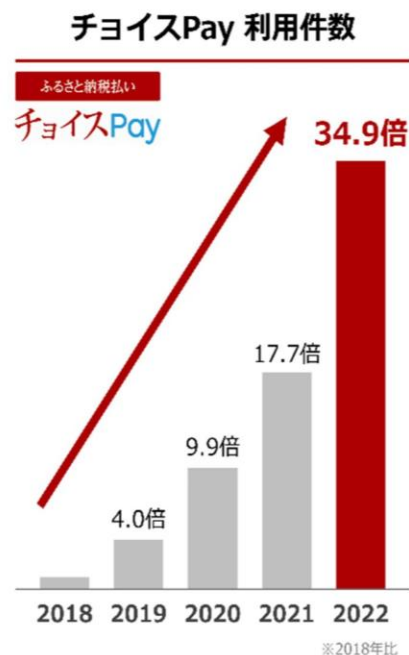
- Stricter "local product" standards for specific ambiguous cases

Regional Creation Domain ~ New Hometown tax experiences ~

- Under the prevailing mail order-style Hometown tax arrangement, the sending of thank-you gifts presents a significant cost.
- We are driving the growth of new Hometown tax experiences with different cost structures.



普通のお買い物感覚で
欲しいものをその場で選べる。



M&A Domain ~ E-Guardian prepares to join ~

- ||| We are in the process of making a takeover bid for comprehensive internet security provider E-Guardian.
- ||| If the bid is successful, the company is expected to become a subsidiary following a planned capital increase from October.



Name	E-Guardian Inc. (Security code: 6050)
Business	Comprehensive internet security provider
Location	8F Toranomom Kotohira Tower 1-2-8 Toranomom, Minato-ku, Tokyo
Founded	May 1998
Employees (Consolidated)	2,547 (incl. 2,146 temporary employees, as of March 31, 2023)
Ownership	45.0~49.9% ※in case TOB becomes successful and the dilution occurs after underwriting a third-party allotment

Services		
Existing business	Social media & gaming support	<ul style="list-style-type: none"> ■ Social media & video post monitoring ■ Customer support ■ Multilingual support ■ Reputation assessments
	Ad processing	<ul style="list-style-type: none"> ■ Advertisement screening ■ Back-office tasks
	Cybersecurity business	<ul style="list-style-type: none"> ■ Vulnerability assessments ■ WAF (Web Application Firewall) ■ SOC (Security Operation Center) ■ Consulting
	Other	<ul style="list-style-type: none"> •Hardware/software debugging

- ||| **The immediate focus is expanding EG's existing services to our group's customer base.**
- ||| **Inject the group's consulting, HR development, and investment strength to accelerate growth.**

Existing business

Social media
support

Gaming
support

Ad
processing

Cybersecurity business

- Large-scale business with relatively stable growth trajectory
- Will look to expand aspects such as monitoring and support to our group's customer base (public sector, finance, telecoms, etc.), which differs from EG's traditional domains (e-commerce, gaming, etc.)
- Can leverage our group's consulting expertise to cultivate clients
- Given the business's labor-intensive nature, can expect to boost productivity by increasing investment in AI and other technologies
- Remarkable growth despite being a latecomer
- Backed by advanced technical capabilities, our group's strengths will accelerate EG's efforts to become Japan's No.1 security brand, offering "one-stop solutions"
- Our group's strengths in developing digital human resources will help to alleviate Japan's severe shortage of security personnel

M&A Domain ~ Delivering security where it is needed ~

- ||| With a broad range of underlying technologies, adequate cybersecurity measures are difficult to implement.
- ||| We will offer a total package from which customers can easily select based on industry type, scale, etc.

Increasingly necessary, yet difficult

Increasingly necessary

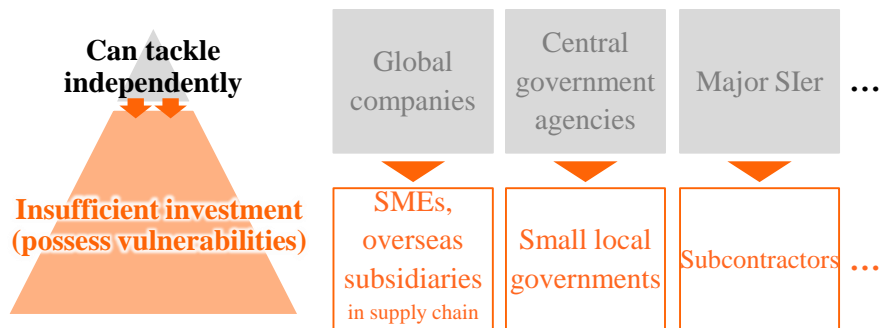
- Work is predominantly digital (digitalization of tasks and tools)
- Customers also predominantly digital (digital shift in services & products)
- Risk is ever-present in all situations
- In reality, attacks are increasing



Difficulties

- Difficult to commit to investments that eliminate a negative without contributing positively
- No options that can be easily selected
- Lack of personnel with the knowledge to make selections

Need to reach segment unable to deal on their own



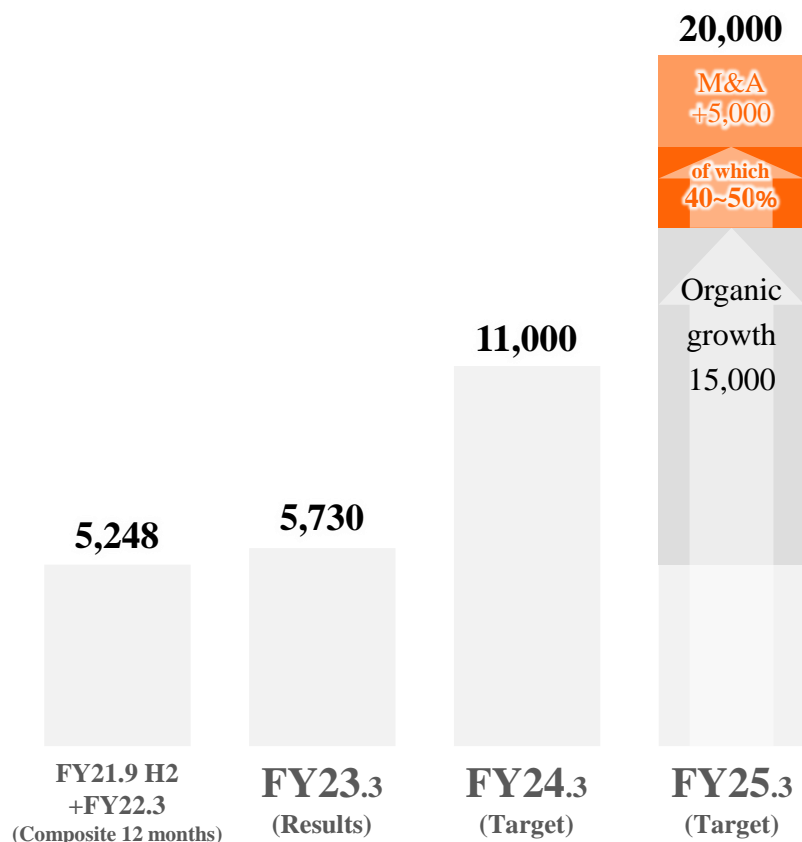
- Total package with everything necessary
- Covers special needs based on industry type/scale
- Support for making the decision to adopt
- Instead of specialists, also develop operating personnel

M&A Domain ~ Contribution to DJ2 ~

- III If EG joins the group, we expect the deal to make up 40~50% of the additional 5 billion yen in operating profit we plan to generate through M&As in FY25.3.

Contribution to operating profit

Unit: million yen



Positioning in DJ2

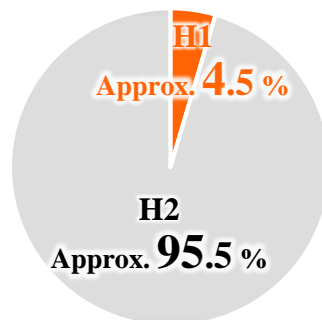


- III Expand EG's services to CHANGE group customer base
- III Offer bundled services from CHANGE group companies to EG's customer base

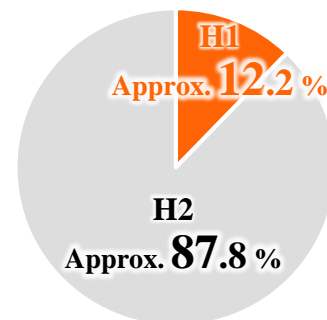
M&A Domain ~ Improved profit weighting ~

- EG's profits are spread more evenly throughout the year, which will partly offset our group's H2 weighting.
- Since EG's business will fall under NEW-IT Transformation, our segment weighting is also set to improve. ※The figures below are simple additions that do not reflect assumed variances, adjustments, etc., and are used for illustrative purposes only

H1/H2 share

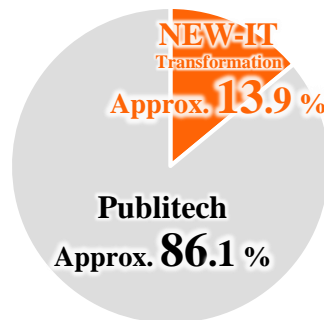


※CHANGE Holdings FY24.3 operating profit targets

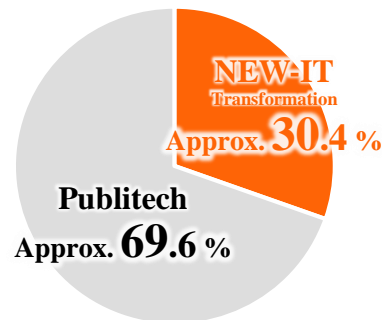


※ If EG's FY22.9 H2 and FY23.9 H1 operating profits are added to H1 and H2 respectively

Segment share



※ CHANGE Holdings FY23.3 segment profit results (excl. Investment segment & adjusted figures)



※ If EG's FY22.9 H2 and FY23.9 H1 operating profits are added to NEW-IT

Public DX Domain ~ Digital Garden City Nation grants~

- ||| Our group/partner companies have won many of the projects selected for Digital Garden City Nation grants.
- ||| Evidence that Collaboration, the cornerstone of our public DX domain strategy, is proving effective.

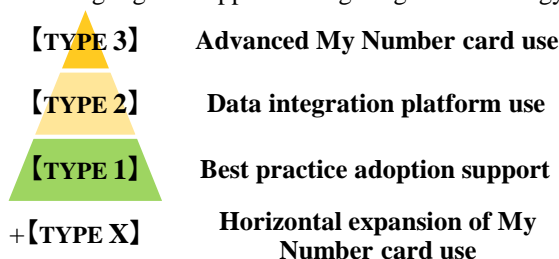
System overview

Aim

- To promote the government’s vision for a Digital Garden City Nation by aiding the independent digitalization efforts of ambitious regions, these grants support municipalities using digital technology to tackle local issues and boost regional appeal

Overview

- For a single year, provides support with the start-up costs of the following projects, aimed at tackling local issues and boosting regional appeal through digital technology



General requirements

- ① Use digital technologies to solve local issues and make communities more attractive
- ② Establish systems for effective, ongoing collaboration with relevant parties inside and outside the region (by forming a consortium, etc.)

113 group/partner projects selected (45.6% of total)

Company	TYPE 1	TYPE 2	TYPE 3	TYPE X	Total
Trust Bank	40	0	0	1	41
xID	12	1	2	12	27
CoDMON <small>(Partnership in children’s DX domain)</small>	14	0	0	0	14
Graffer	12	1	0	1	14
NEXT DELIVERY <small>(AeroNext subsidiary)</small>	6	0	0	1	7
Liquitous <small>(Hidaka-Mura Consortium member)</small>	4	0	1	0	5
Govmates	2	0	0	1	3
Asukoe Partners	1	0	0	0	1
Jichitai Works <small>(Hope subsidiary)</small>	1	0	0	0	1

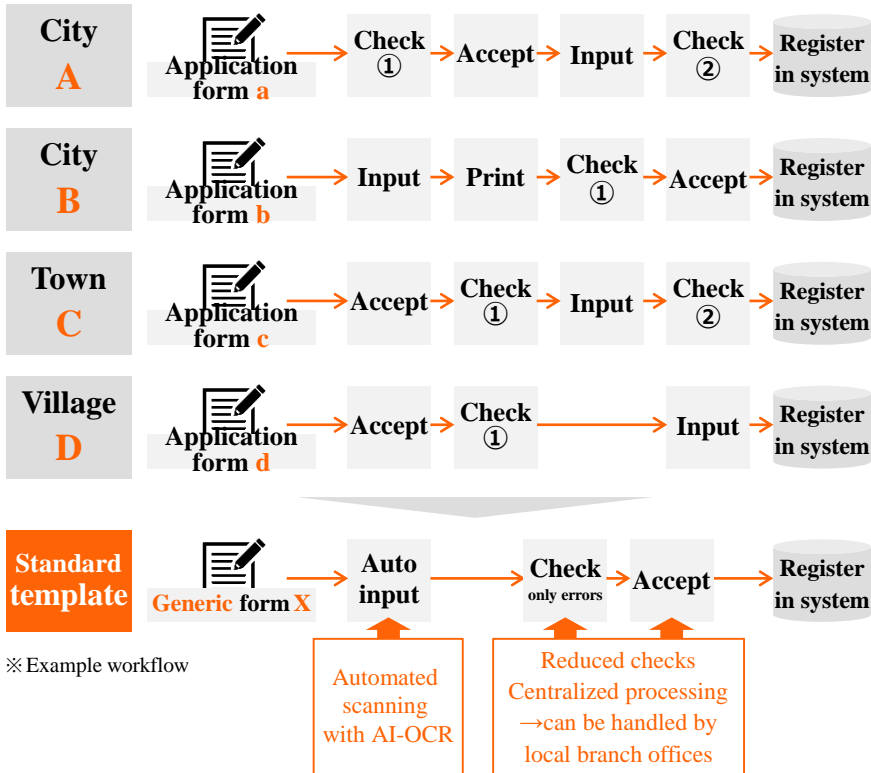
※ Ref.: “Digital Garden City Nation Grants – Digitalization Project Grant Recipients”
https://www.chisou.go.jp/sousei/about/mirai/pdf/01_koufuketteishiryoku.pdf

※ For selected projects, see “Digital Garden City Nation Grants for Digitalization – Report on Startup Involvement Measures (Rev. FY2022)”
https://www.chisou.go.jp/sousei/about/mirai/pdf/04_digiden_startup.pdf

Public DX Domain ~ Ehime model becoming the standard ~

- ||| Having shifted focus to shared services, Govmates' approach continues to evolve.
- ||| Establishing a template-based system that efficiently assimilates the procedural differences between municipalities.

Template resolves procedural differences between municipalities



※ Example workflow

Continuing to identify potential workload reductions



※ Personnel expenses quoted/calculated from Ministry of Internal Affairs and Communications “White Paper on Local Public Finance, 2022” (https://www.soumu.go.jp/menu_seisaku/hakusyo/chihou/r04data/2022data/r04czb01-05.html#p01050101)

- Total personnel expenses come from Fig. 47 “Breakdown of Personnel Expenses by Item”
- General administrative staff personnel costs calculated using the percentages in Fig. 51 “Number of Local Government Employees”

※ Percentages for core/non-core and standardized/shared work are estimated from Govmates workload survey results

Disclaimer

- ||| All future forecasts, estimates, etc. appearing in this document were determined by us based on information available at the time of preparing these materials, and may contain a degree of uncertainty.
- ||| Actual future performance depends on various factors, and may differ significantly from any forecasts, etc. herein.



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