Financial Results for the 2nd Quarter of Fiscal Year Ending March 2024

CHANGE Holdings, Inc.
Security Code: 3962

November 14, 2023

CHANGE HOLDINGS

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Group Mission

CHANGE
HOLDINGS

Change People,

Change Business,

Change Japan.

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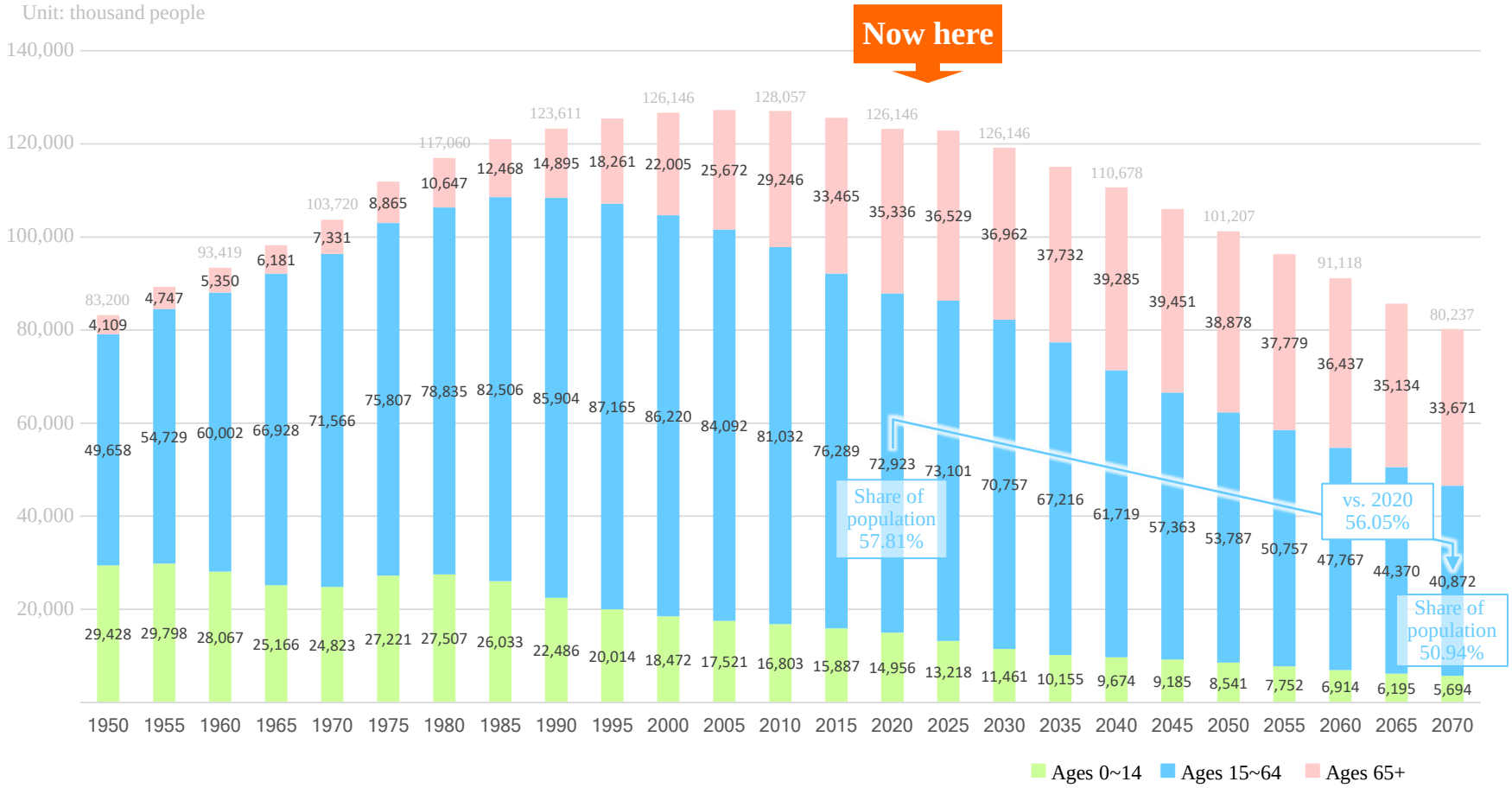
From Challenge to Crisis

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"

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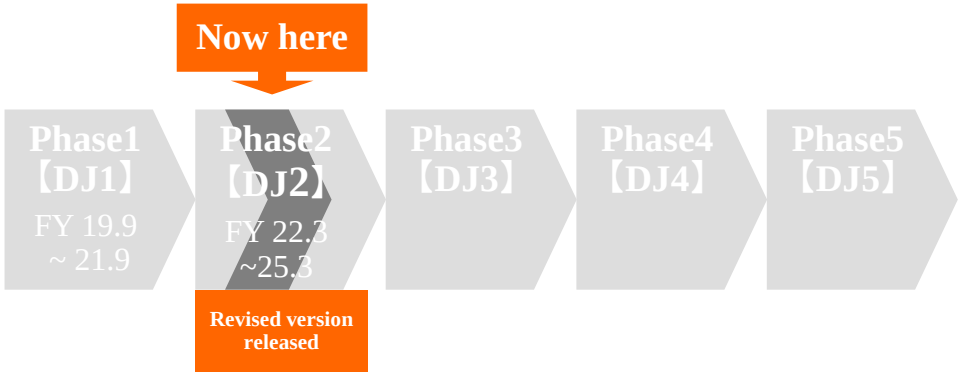
Our Path Drawn

Currently in Chapter 2 of establishing a digital era in 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/2281114/00.pdf

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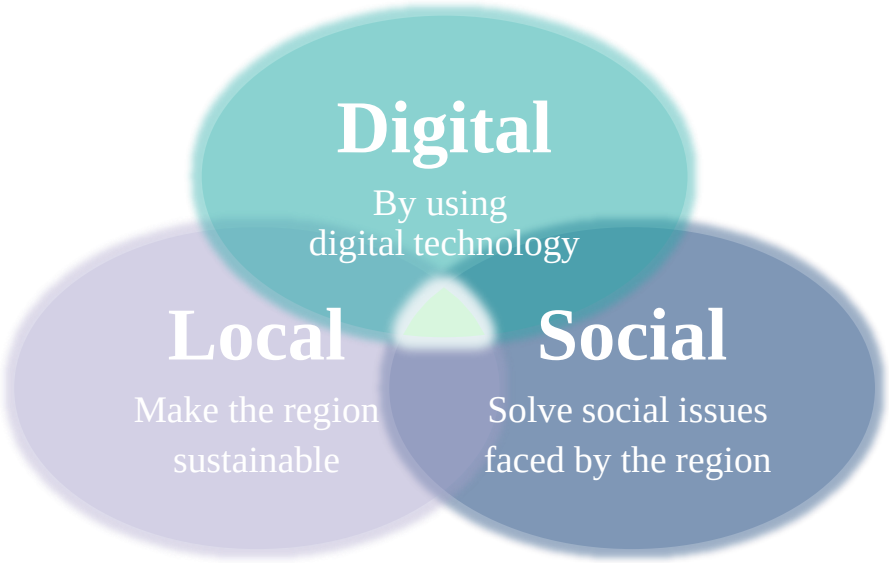
Focus Domain for “DJ2”

- **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.

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Our Group's Business Domains

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

CHANGE HOLDINGS

NEW-IT Transformation

Private-sector DX

DFA Robotics

DFA Robotics

beacapp

beacapp

beacapp HERE

beacapp HERE Hospital

CHANGE

CHANGE PEOPLE BUSINESS JAPAN

People×Technology

Public-sector DX

Human resource development

KaWaL eLearning

KaWaL 診断

E-Guardian

E-Guardian We Guard All

Human resources

Digital Growth Academia

DGA Digital Growth Academia

Logosware

LOGOSWARE

みんなデ

Publitech

Regional creation

Trust Bank

TRUST BANK

Hometown tax

Energy

Publitech

Orb

orb

ふるさとチョイス

LoGoチャット

LoGoフォーム

Public-sector DX

Governance Technologies

GovernanceTechnologies

Travel Zip

Travel Zip

Govmates

Govmates

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FY24.3 Q2 Financial Results Summary

- **Significant leap powered by yields from previous investments and Hometown tax payments being brought forward.**
- **Revenue, operating profit, and profit before taxes all hit record highs for the April-September period.**

Record-high profits	**Record profits due to strong performance by both existing and newly consolidate businesses** (Y.o.Y: revenue approx. 2.5x, operating profit approx. 32x) **Progress remains significant even if the accelerated Choice (Hometown tax) demand is excluded** (Even excluding the estimated 2.85 billion yen brought forward, H1 plan was greatly exceeded)
Successful completion of large-scale M&A	**Tender offer for E-Guardian concluded successfully** **Also completed capital increase procedures to make the company a subsidiary** **Immediately began PMI, bringing final DJ2 targets for FY25.3 within range**

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Q2 Overview

Future Prospects

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Q2 Overview (Consolidated)

||| Despite planned profits being weighted toward the second half of the fiscal year, the first half target was exceeded by a considerable margin.

(based on operating profit)

(Unit : million yen)	H1 (Apr~Sep) amount	H2 (Oct~Mar) amount	Full period targets amount	Full period targets %	H1 results amount	H1 results %
Revenue	**11,139**	**22,860**	**34,000**	100.0%	**14,657**	100.0%
Cost of sales	**4,838**	**6,514**	**11,352**	33.4%	**4,704**	32.1%
Gross profit	**6,300**	**16,346**	**22,647**	66.6%	**9,952**	67.9%
SG&A Expenses	**5,808**	**5,868**	**11,677**	34.3%	**5,622**	38.4%
Operating profit	**500**	**10,500**	**11,000**	32.4%	**4,329**	29.5%
Financial income	**0**	**0**	**0**	0.0%	**76**	0.5%
Financial expenses	**15**	**13**	**29**	0.1%	**28**	0.2%
Profit before taxes	**484**	**10,486**	**10,970**	32.3%	**4,377**	29.9%
Income tax expense	**153**	**3,300**	**3,454**	10.2%	**1,388**	9.5%
Net profit	**331**	**7,185**	**7,516**	22.1%	**2,989**	20.4%
Profit attributable to owner of parent	**406**	**6,805**	**7,211**		**3,131**	
Loss attributable to non-controlling interests	**△75**	**380**	**304**		**△141**	
(ref) EBITDA	**907**	**10,995**	**11,903**	35.0%	**4,927**	33.6%

※Consolidation of E-Guardian Inc. scheduled to begin in Q3

Breakdown by business segment

(Ref.) Q1

(Unit : million yen)	NEW-IT Transformation	Investment	Publitech	Adjusted
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

H1 cumulative

(Unit : million yen)	NEW-IT Transformation	Investment	Publitech	Adjusted
Revenue	2,967	127	11,572	△9
└External revenue	2,957	127	11,572	—
└Inter-segment revenue	9	—	—	△9
Segment profit	711	126	5,192	△1,700

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

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

||| Significant increase, part due to Hometown tax payments being brought forward

- Revenue Y.o.Y approx. **2.5 x**
- Operating profit Y.o.Y approx. **32 x**

※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)

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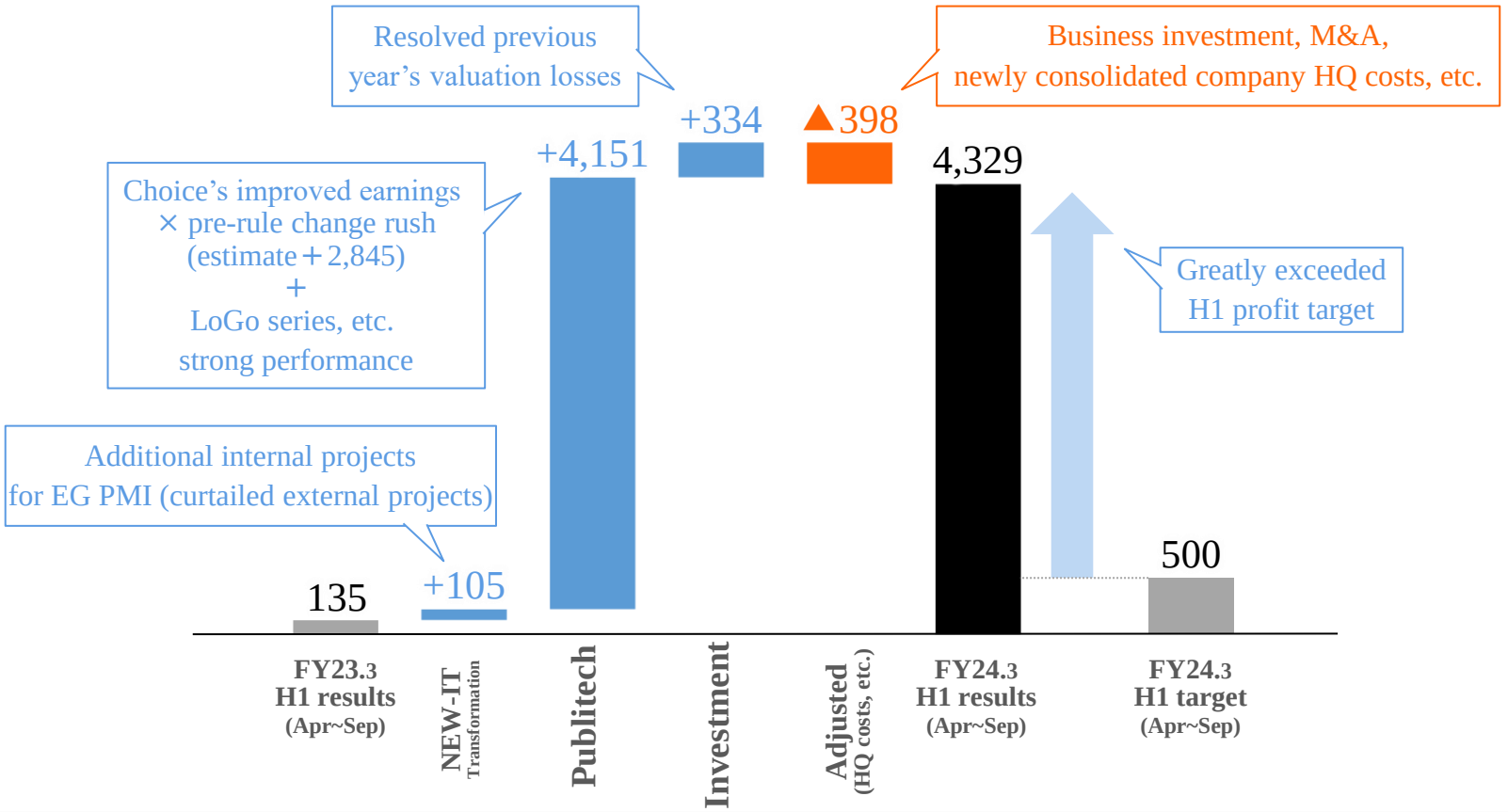
Overview – Supplementary

- **Witnessed a certain tendency for donations to be brought forward in light of the Hometown tax rule changes coming into force in October.**
- **We will determine whether the plan requires revision in order to distinguish future increase factors and this "eating into" donations.**

Year on year – Increase factors

※Operating profit
※Unit: million yen



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Q2 Key Topics ~ EG takeover bid successful, becomes subsidiary ~

- **As reported on October 3, we successfully acquired a stake in EG, which was subsequently increased to make the company a subsidiary.**
- **A first step toward restructuring the domestic security industry.**

E-Guardian
We Guard All

Tender offer successful at upper limit

- TOB successful with subscriptions exceeding expected upper limit
- Subscribed shares exceeded expected upper limit, capped at 4,316,908
- Acquisition price: 3,000 yen per share (Premium on last closing price before announcement: 42.93%)
- Stake acquired through TOB: 36.86% (Attenuated stake after subsequent capital increase)

Consolidated subsidiary

- Following the successful TOB, we underwrote a third-party allocation of new shares
- Price: 2,099 yen per share (8.1 closing price)
- Shares acquired: 1,527,716 (Equivalent to 13.04% stake after attenuation)
- Including the TOB stake, acquired 49.90% of the company, making it a consolidated subsidiary (IFRS “de facto control”)
- EG maintains its listing

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Q2 Key Topics ~ Shareholder benefits abolished, dividend increased ~

- **After a period of deliberation, the board decided to abolish shareholder benefits in favor of focusing solely on dividends.(11.14)**

Shareholder benefits abolished

- Decided to focus on dividends to ensure fair redistribution of profits
- Ended with points issued March 31, 2023
- Existing points valid until February 29, 2024

Dividend increase

- Funds roughly equal to total benefits shifted toward dividends
- On top of initial forecast (10.0→12.0 yen), forecasting an additional dividend increase of 12.0→12.5 yen
- Dividend payout ratio to 12.5%

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Q2 Key Topics ~ Updated Choice logos ~

TRUST BANK

- Simultaneously renewed logos for Furusato Choice and all related services.
- From Hometown tax portal site to comprehensive regional development brand.

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Q2 Key Topics ~ Meibutsu Choice opens ~

TRUST BANK

- **New e-commerce service launched as a Furusato Choice sister site.**
- **Works with local governments, businesses, and producers throughout the country to showcase the appeal of regional resources.**

めいぶつチョイス
つくり手のこだわりを買う

物語に共感して選ぶ、という新しい購入体験へ。

めいぶつチョイスは、日本全国の生産者・事業者が丹精込めてつくり、手がけた品を、知られざるこだわりや背景、その由来とともにお届けする通販サイトです。

つくる人と買う人のこだわりを、ちゃんとつなぐ。

その品の「違い」が何から生まれるか。それがつくる側のこだわり。
その品のどこを魅力と感じるか。それが買う側のこだわり。
「違い」がちゃんと魅力になれば、「自分はこれを求めていた」と納得できる。
めいぶつチョイスは、由来という糸をつむぎ、ふたつのこだわりを結びます。

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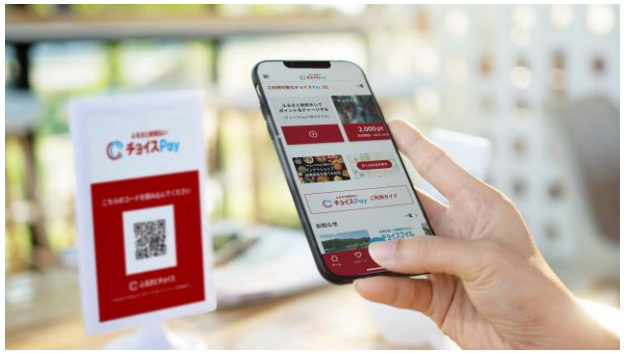
Q2 Key Topics ~ ChoicePay expands nationwide ~

- **ChoicePay use at product fairs and local government events continues to grow across the country.**
- **Drives the expansion of new donation experiences that spur direct interaction between donors and regions.**

ふるさと納税払い

チョイスPay



First in Kansai area

- ChoicePay use at Takashimaya's Hokkaido exhibition expanded to Kyoto and Osaka stores

First in Kyushu area

- ChoicePay incorporated into 2nd "Motto Motto! Kumamoto" product exhibition at Daimaru Fukuoka Tenjin store

First in Aichi Prefecture

- "Furusato Support Market" held as part of event organized by Nishio City, Aichi

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Q2 Key Topics ~ “Meet Furusato Choice” in physical stores ~

TRUST BANK

In-store “Meet Furusato Choice” goes beyond online services to offer new encounters and discoveries from around the country, creating connections and personal interactions.

逢うふるさとチョイス
地域とのご縁がはじまるお店

In conjunction with online Kyushu exhibition
(9.2~)

- Exhibition linked to special website within Furusato Choice
- Meet Furusato Choice offers exclusive in-store sales of outstanding products showcased in the media
- Create local fans by providing opportunities to experience product appeal firsthand

Kyoto exhibition
(10.2~)

- Display of thank-you gifts from Kyoto prefecture municipalities
- Visitors can touch and purchase products directly
- On the same day, Kyoto prefecture and municipalities collaborate on Hometown tax collection with the aim of increasing donations across the prefecture

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Q2 Key Topics ~ 9th Furusato Choice appreciation event ~

TRUST BANK

- Over 100 municipalities from around Japan gathered to showcase thank-you gifts and other local offerings.
- Held for the ninth time, the event provides an opportunity for local governments, businesses, and producers to engage directly with donors.

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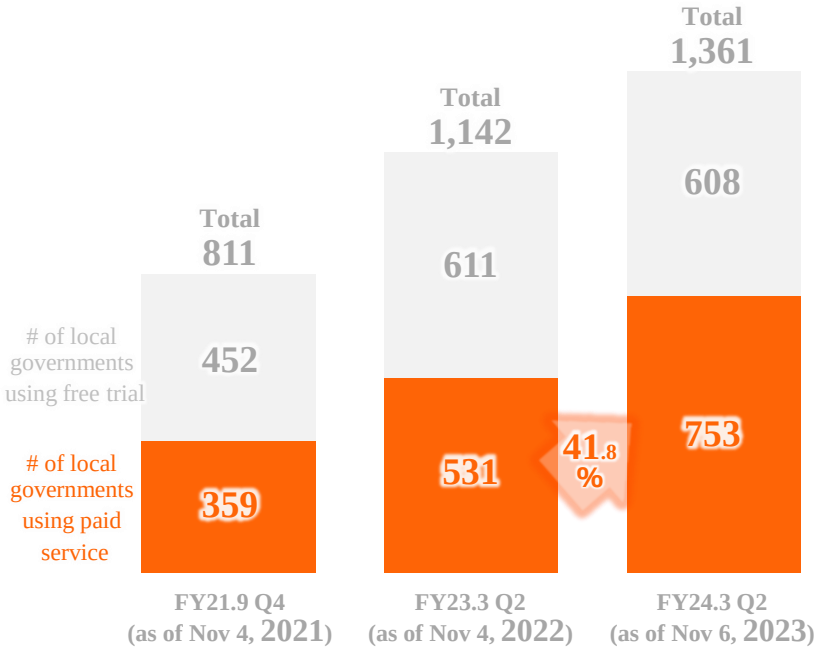
Q2 Key Topics ~ LoGo series' continued strong performance ~

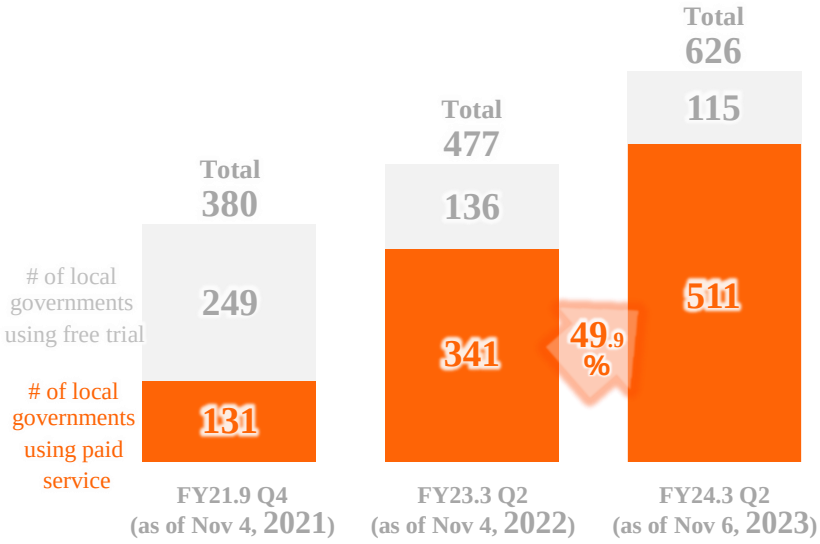
TRUST BANK

- **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

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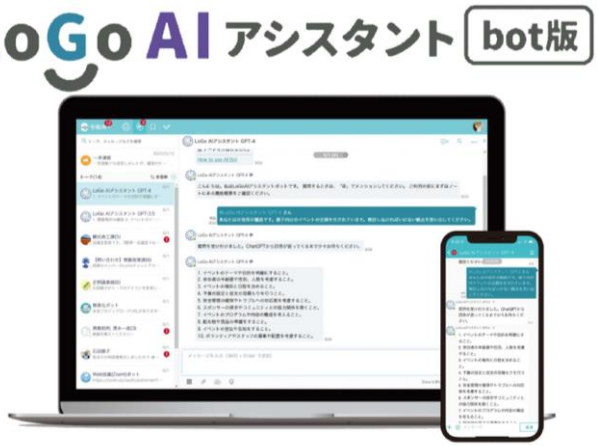
Q2 Key Topics ~ ChatGPT for local governments ~

TRUST BANK

- **In October, we began a full-scale rollout of our ChatGPT service for local governments.**
- **Used by 41 municipalities from launch, alongside many inquiries/consultations, etc.**

Adopted by 41 municipalities
since full-scale launch in October!
Continuing to receive inquiries!



- A service that enables ChatGPT use within LoGo Chat
- Began full-scale rollout from October
- 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
- We envision the following initial usage cases

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

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

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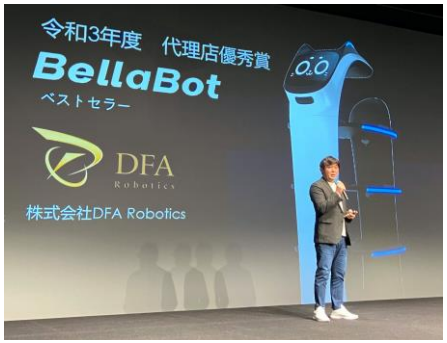
Q2 Key Topics ~ Dual awards from PUDU! ~

Received Best Agency Award and BellaBot Best Seller Award at PUDU new product launch.(8.18)



- Awarded for achieving the highest sales of all PUDU products in Japan over a given period
- 1,500 units in June and 2,000+ in August 2022
- Set up sales & support hubs in Hokkaido, Miyagi, Osaka, and Fukuoka to provide localized solutions and support systems
- Working with partners to also provide rapid troubleshooting nationwide

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Q2 Key Topics ~ “Minna de” renewal ~

- Updated the UI for “Minna de,” a specialized digital skills education platform, with a mobile-first approach.
- Facilitates more casual learning via smartphones, helping all employees to become digitally proficient.

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Q2 Key Topics ~ Specialized study for IT Passport ~

- **We began offering a specialized online training program for obtaining IT Passport, consisting of exercise sets.**
- **Can reduce an expected 150~200 hours of study time down to 30 hours.**

ワカル、カワル

KaWaL

IT パスポート

Quick learning via smartphone

- Study in just 5 minutes via smartphone or computer, making effective use of spare time (commute, etc.)
- Begin learning without prior knowledge by using core problem sets, vocabulary lists, etc.

Manage learning visually

- Administrators can easily check progress and results data
- Tracks progress during learning without becoming a black box
- Can receive support and reminders as needed

Exam preparation and practical use

- All questions include explanations of solutions and useful information for practical application
- Fulfills the need to both pass the exam and acquire practical knowledge

ChatGPT advice

- Receive advice from ChatGPT based on learning progress and performance, and ask questions
- Deepen knowledge through interaction with AI
- Also gain better understanding of AI use

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Q2 Key Topics ~ Integrated reskilling support ~

- **Supports reskilling in both basic business competencies and digital skills for the DX era.**
- **Offering integrated practical support, from defining scope to training/development status visualization.**

リスモア Reskilling More

Design optimal training measures

- Propose optimal training methods, from defining required competencies to post-training follow-ups and effectiveness measurement
- Support targeting specific needs also available

Extensive solutions line-up

- Exercise-based structure elevates users from understanding to practical application
- Measures can be designed by combining prior learning, follow-ups, and measurements of effectiveness

Utilize development expertise based on training track record

- Fully utilizes expertise gained in supporting human resource development at over 300 companies, totaling 1 million employees
- Measures can be tailored to the traits of individual users

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Q2 Key Topics ~ Taking Hidaka expertise to the rest of Japan ~

- **Established an association to expand the knowledge gained in digitalizing Hidaka village, Kochi, to the rest of Japan.**
- **Developing initiatives to help eliminate the digital divide and improve quality of life through digital solutions.**

一般社団法人
まるごとデジタル

Outcomes in Hidaka	- Supporting those left behind by the digital divide, since government digitalization requires digitally literate residents - Boosted smartphone use from roughly 65% to 80% in Hidaka (population ~5,000) - Assist residents via information sessions, consultation center, etc. - Increased use followed by expansion of community services (introduction of health app services, etc.)
Future development	- Seek supporting members among municipalities and companies nationwide - Use expertise gained from Hidaka initiatives to provide comprehensive support, from identifying issues to be solved by municipalities to devising/developing the necessary schemes - Contribute to the realization of a human-centric Society 5.0 by helping to eliminate the digital divide and improve quality of life for local communities through digitalization

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Q2 Overview

Future Prospects

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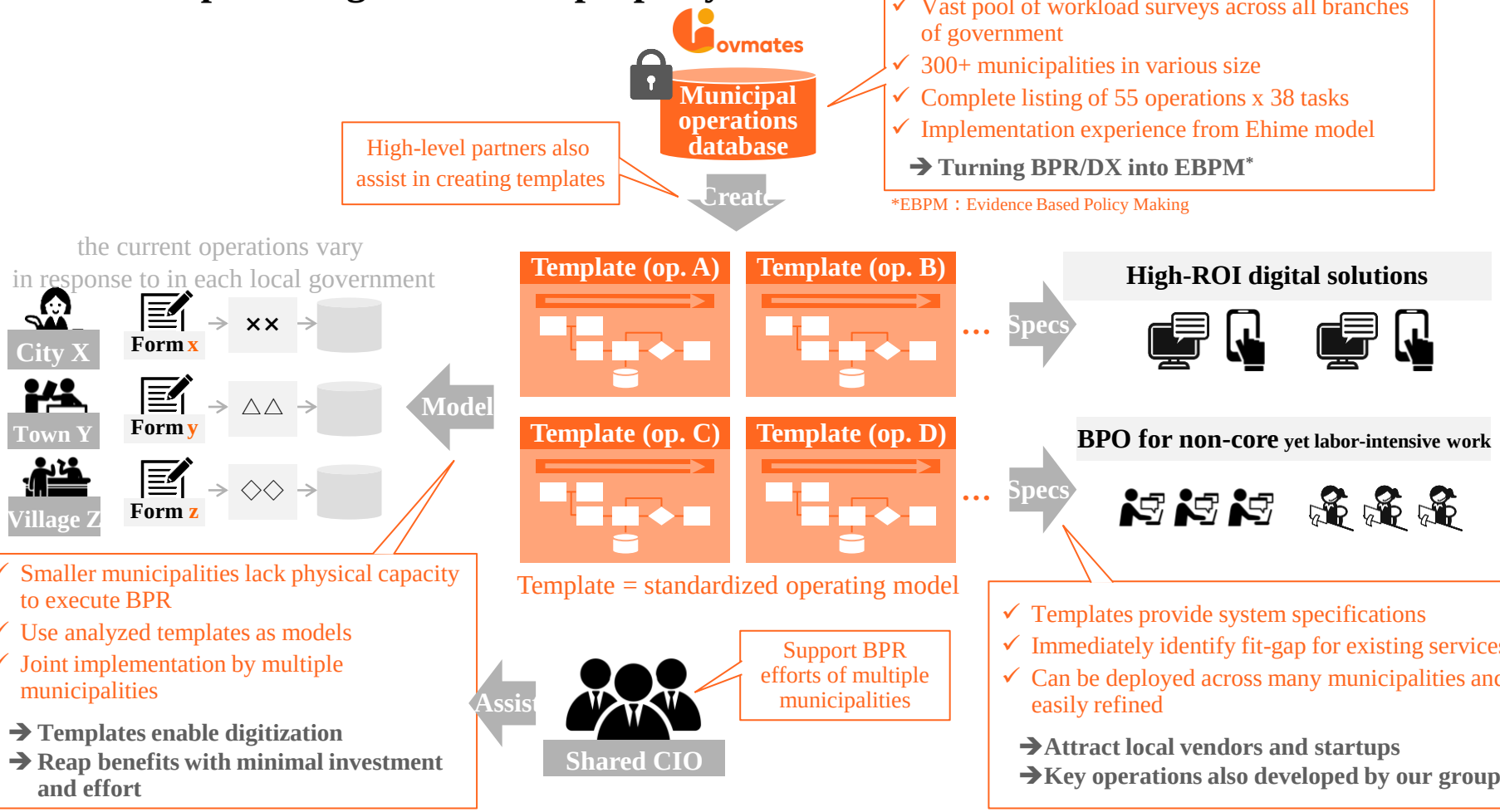
Public DX Domain ~ Creating a template-based ecosystem ~

- **Completed a database encompassing local government operations from the Ehime model and other past projects.**
- **Templates enable various points of entry, which can be turned into a revenue model based on providing intellectual property.**



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Public DX Domain ~Foundational data for regional government restructuring~

- **Progress in standardization and digitalization is reshaping regional governments nationwide.**
- **Achieve optimal yet feasible restructuring through accumulated data, experience, and networks.**

National	Develop infrastructure/shared functions	Develop infrastructure (cloud network data integration, etc.) Develop shared functions nationwide (authentication, payments, etc.)
	Consolidate administrative tasks nationwide	Consolidate common local government administrative tasks (AI-powered consultation, call centers, etc.)
Prefectural	Promote cooperation between municipalities	Shared use of digital solutions by multiple municipalities, etc. Support municipalities in planning and budgeting (joint purchasing, etc.)
	Consolidate operations of small municipalities	Consolidated handling of administrative tasks for multiple municipalities (administrative center, etc.)
Local government		What tasks should be left for local governments? Tasks for which consolidation lowers efficiency or quality? Ways to absorb individual circumstances of each municipality? etc. ➔ **Requires concrete experience beyond mere calls to action**

- Promotion requires greater effectiveness measurement through EBPM/visualization
- Use intellectual property to meet demand for baseline data to measure effectiveness of operation restructuring improvements

*For details, see Digital Administrative and Fiscal Reform Meeting materials dated 2023.10.11 (https://www.cas.go.jp/jp/seisaku/digital_gyozaikaikaku/kaigi1/kaigi1_siryou4.pdf)

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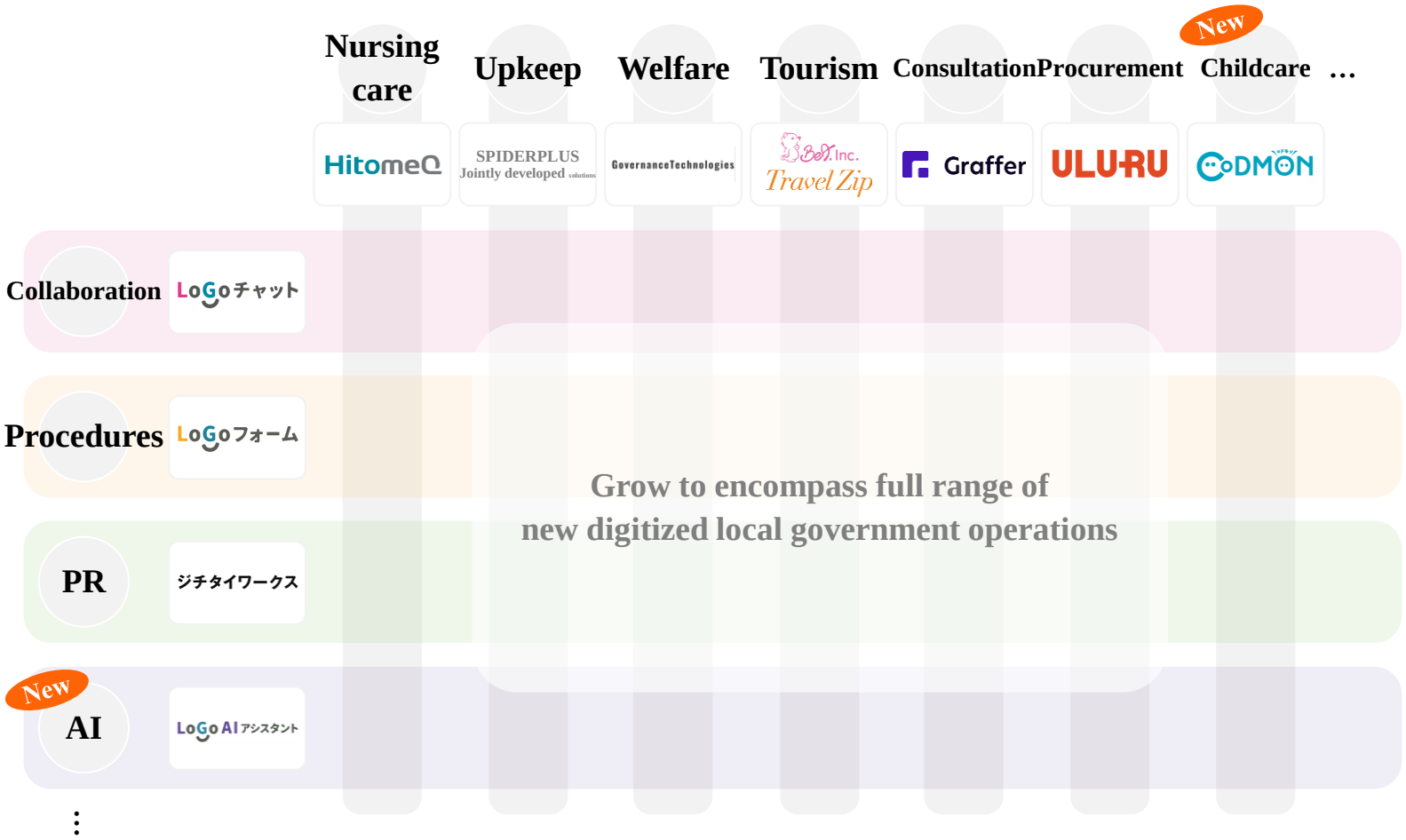
Public DX Domain ~ Digital solution integration ~

- Assemble full range of high-ROI solutions built on template work models.
- In core domains, we will develop/offer solutions directly, to be monetized through a recurring model.



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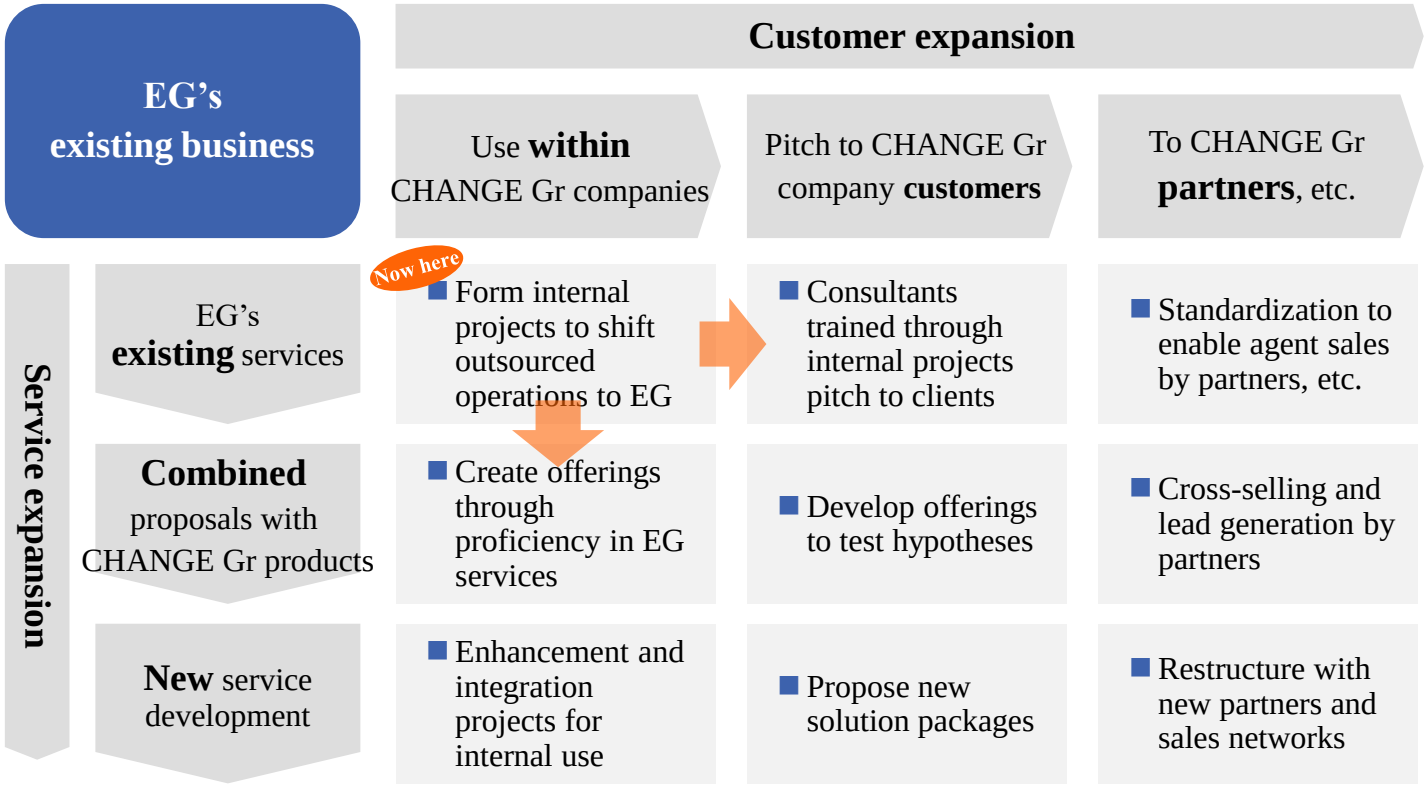
M&A Domain ~ Focus of EG PMI ~

- **The immediate PMI focus is laying the groundwork for external expansion of EG's services through use within the group.**
- **Foster external sales consultants through internal projects while achieving short-term results with cost controls.**



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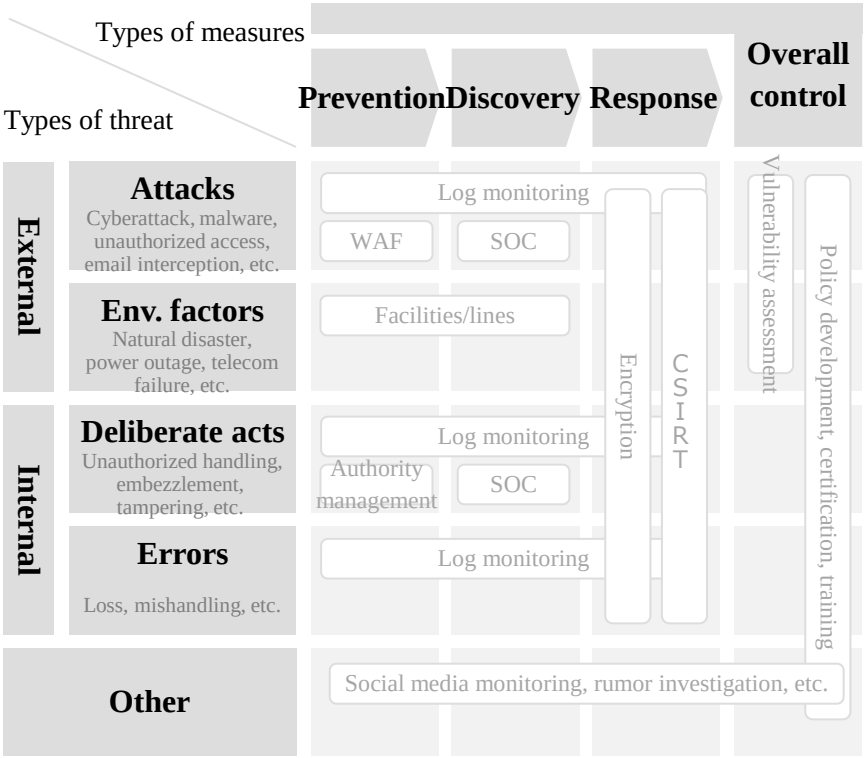
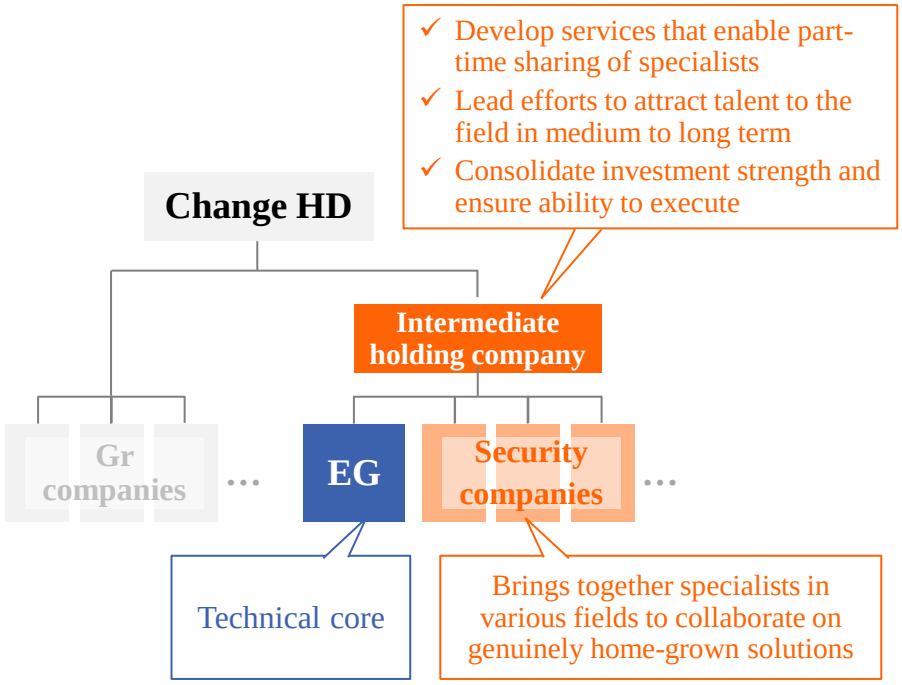
M&A Domain ~ Aims of intermediate holding company and industry restructuring ~

- **The aim of industry restructuring is to bring together and train/strengthen domestic security personnel to alleviate the drastic shortage.**
- **Marshall domestic capabilities and create systems to curb digital deficit and over-reliance on foreign services.**

Solutions must cover many elements, while specialists are widely spread



Intermediate holding company structure brings together/strengthens specialists



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- Actual future performance depends on various factors, and may differ significantly from any forecasts, etc. herein.

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