

November 14, 2019

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2020 (Three Months Ended September 30, 2019) [IFRS]

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Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen.)

1. Management Performance Measures under IFRS

Consolidated Results of Operations (July 1, 2019 – September 30, 2019)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Sep. 30, 2019	4,111	3.8	306	(35.6)	303	(36.1)	203	(38.0)	138	(32.2)
Three months ended Sep. 30, 2018	3,959	39.6	476	24.5	474	24.3	329	24.7	204	18.8

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended Sep. 30, 2019	8.10		7.97	
Three months ended Sep. 30, 2018	12.08		11.81	

2. Management Performance Measures under Non-GAAP Measures

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group's underlying operating performance and its outlook.

For details of the non-GAAP measures, please refer to “(1) Explanation of Results of Operations” on page 2 of Attachments.

Consolidated Results of Operations (July 1, 2019 – September 30, 2019)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended Sep. 30, 2019	4,111	3.8	333	(29.9)	330	(30.4)	231	(29.8)	165	(19.0)
Three months ended Sep. 30, 2018	3,959	39.6	476	24.5	474	24.3	329	24.7	204	18.8

Note: Expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation) of 27 million yen were deducted from the line items below operating profit in the first quarter of the current fiscal year.

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended Sep. 30, 2019	9.68		9.52	
Three months ended Sep. 30, 2018	12.08		11.81	

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen				
Fiscal year ended Jun. 30, 2019	-	12.00	-	12.00	24.00
Fiscal year ending Jun. 30, 2020	-	-	-	-	-
Fiscal year ending Jun. 30, 2020 (forecasts)	-	14.00	-	14.00	28.00

Note: Revisions to the most recently announced dividend forecast: None

4. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Sep. 30, 2019	21,526	10,049	7,387	34.3	423.18
As of Jun. 30, 2019	18,694	9,608	7,010	37.5	413.08

* Notes

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): Yes

Newly added: 1 (J-Phoenix Research Inc.)

Excluded: -

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

Note: For more information, please refer to “Notes to Condensed Quarterly Consolidated Financial Statements, 3. Significant Accounting Policies” on page 11 of Attachments.

(3) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Sep. 30, 2019: 17,456,859 shares As of Jun. 30, 2019: 16,971,659 shares

2) Number of treasury shares as of the end of the period

As of Sep. 30, 2019: 8 shares As of Jun. 30, 2019: 8 shares

3) Average number of outstanding shares during the period

Three months ended Sep. 30, 2019: 17,105,078 shares Three months ended Sep. 30, 2018: 16,917,796 shares

* The current consolidated financial results are not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Scala’s management at the time these materials were prepared, but are not promises by Scala regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

Scala, Inc. and its group companies (“the Group”) have adopted International Financial Reporting Standards (IFRS).

In addition to IFRS, the Group has adopted financial measures that can express its operating performance more accurately (“the non-GAAP measures”), and accordingly has disclosed its consolidated results of operations by applying both IFRS and the non-GAAP measures.

(1) Explanation of Results of Operations

The Group has sought to enhance its corporate value by devoting more human resources to growth areas, expanding business through M&A, developing new businesses as well as making more efficient use of corporate resources in the existing businesses in accordance with the medium-term business plan.

As a result, the Group reported revenue of 4,111 million yen (up 3.8% year-on-year) for the first quarter of the fiscal year ending June 30, 2020 (“the current fiscal year”).

However, due primarily to expenses incurred on relocation of the head office and on recruitment of human resources to be assigned for new businesses, the Group reported a year-on-year decrease in profits with operating profit of 306 million yen (down 35.6% year-on-year), profit before tax of 303 million yen (down 36.1% year-on-year), profit of 203 million yen (down 38.0% year-on-year) and profit attributable to owners of parent of 138 million yen (down 32.2% year-on-year).

(Reporting on a non-GAAP basis)

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group’s underlying operating performance and its outlook.

Non-recurring items refer to one-off profits or losses that we believe should be excluded based on certain criteria for the purpose of preparing the earnings forecast.

While the Group discloses the non-GAAP measures in reference to the rules set out by the U.S. Securities and Exchange Commission, this does not mean the Group fully complies with these rules.

For both the first quarters of the current and previous fiscal years, no adjustments were made to calculate the non-GAAP measures.

During the first quarter of the current fiscal year, adjustments were made to calculate the non-GAAP measures for expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation).

Business segment performance was as follows.

Segment revenue and operating profit are presented in accordance with IFRS.

(i) SaaS/ASP Business

In this business segment, earnings remained strong, backed by a continued cumulative increase in segment revenue based on the recurring income business model.

During the first quarter of the current fiscal year, the number of customers who used the Group’s services continued to steadily increase. Among others, the services that improve work efficiency of contact centers were used by more customers.

Specifically, the “i-ask,” a knowledge management system, has been adopted by Community Network Co., Ltd.; The Kiyu Bank, Ltd.; and the official website of Kandu, which is developed and operated by AEONMALL KIDS DREAM, LLC. The “i-assist,” a chatbot system to automatically answer questions from users on a website,

has been adopted by the official website of Vitality operated by Sumitomo Life Insurance Company. The “i-livechat,” a system that enables real time online chat, has been adopted by Chubu Electric Power Company and HASEKO Corporation. A web service other than the above has been adopted by Dyson Limited.

Moreover, our subsidiaries Scala Communications, Inc. and Leoconnect, Inc. newly developed “C7,” a new cloud-based mission-critical system that precisely matches customers’ requirements. It has been adopted by i-station, Inc. and other companies and will be adopted by multiple companies in the following year and thereafter.

To address an issue on securing development personnel—one of the Group’s critical issues, as always, for business growth, Scala Next, Inc. accelerated employment of development personnel in Myanmar. As the Group has already started developing new businesses as disclosed in the medium-term business plan, it actively engaged in securing personnel for such new businesses. As a result of such efforts, the number of personnel increased by 53 persons and personnel-related expenses increased by approximately 70 million yen on a year-on-year basis.

As already disclosed, the Group plans to relocate the head office to Shibuya Hikarie in January 2020. In connection with this plan, it recognized 20 million yen as the effect of a change in the useful life of facilities attached to buildings of the current head office.

As a result, while the segment revenue was 1,030 million yen (up 22.2% year-on-year), operating profit was 115 million yen (down 15.3% year-on-year).

Operating profit under the non-GAAP measures was 142 million yen (up 4.5% year-on-year) after adjustment of one-time charges for the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation).

(ii) SFA Business

In this business segment, the Group continued efforts to win new customers by organizing seminars and other events and to encourage the existing customers to more use our services by strengthening group training programs for users as well as providing the existing services to support effective use of our products. The Group also continued development programs focused on ease of use for the CRM/SFA software “e-Sales Manager,” a mainstay product for the Group, and the self-serve software “e-Sales Manager Remix MS.”

As a result, the segment sales were 1,105 million yen (down 1.7% year-on-year) despite our focus on sale of the cloud version CRM/SFA software “e-Sales Manager,” a mainstay product for the Group. In terms of profitability, operating profit was 90 million yen (down 53.7% year-on-year), mainly due to an increase in up-front expenses, including expenses for development for further growth and personnel expenses.

(iii) Field Marketing Business

In this business segment, the Group has made active efforts to better understand the needs of users, identify projects and offer new proposals by engaging in continuing business activities for especially major consumer goods manufacturers. The Group has also promoted efforts to tap new markets based on the concept of Field Cloud Sourcing, which serves a wider range of business sectors and operations.

As a result, the segment sales were 1,025 million yen (up 9.0% year-on-year) and operating profit was 72 million yen (up 0.9% year-on-year) thanks to an increase in sales mainly due to strong performance of the Group’s mainstay services such as the regular field business and the human resources dispatching business.

(iv) Customer Support Business

Leoconnect, Inc. operates a customer support consulting business and serves as a one-stop source of solutions for a variety of issues associated with call center operations. Specifically, it continued to perform inbound call center tasks for the Hikari Tsushin group companies, received orders for customer consulting operations from other major companies, and involved in a contract customer support service for users of services provided by Scala Communications, Inc.

As a result, the segment’s revenue was 549 million yen (down 16.4% year-on-year). The decrease was due to a

reduction in operating cost of call centers as a result of fewer calls to call centers realized through improved users' ability to solve issues by themselves with the Group's SaaS/ASP products introduced to customers. Operating profit was 10 million yen (down 8.9% year-on-year) due to a shift of focus to higher margin products.

(v) Other Businesses

In the EC business, plube Inc. operates an e-commerce site for buying and selling battle game trading cards. The EC business recorded revenue of 251 million yen (up 28.0% year-on-year) and operating profit of 23 million yen (up 2.6% year-on-year) for the first quarter of the current fiscal year.

The system development business maintained the same level of sales year-on-year, which was 104 million yen (the same year-on-year) offsetting some effect of a reduction of the scale of transactions for large projects. However, operating profit was 2 million yen (down 65.4% year-on-year) despite the Group's cost saving efforts such as reviewing improvement of profitability by ensuring more strict management of projects.

In the publishing business, sales decreased to 45 million yen (down 51.7% year-on-year) against a backdrop of a reduction in sale of books. Operating profit was 0.5 million yen (down 98.2% year-on-year) due to the decrease in sales that could not covered by the Group's cost saving efforts.

Overall, operating profit of the other businesses segment as a whole was 16 million yen (down 71.5% year-on-year), reflecting upfront investment cost for other new businesses.

(2) Explanation of Financial Position

Assets

Total assets amounted to 21,526 million yen at the end of the first quarter of the current fiscal year, an increase of 2,831 million yen over the end of the previous fiscal year. This was mainly due to increases of 1,118 million yen in cash and cash equivalents and 1,172 million yen in right of use assets arising from the adoption of IFRS 16.

Liabilities

Liabilities totaled 11,477 million yen, an increase of 2,390 million yen over the end of the previous fiscal year. This was mainly due to increases of 1,473 million yen in bonds and borrowings under current liabilities and 946 million yen in lease obligations arising from the adoption of IFRS 16.

Equity

Equity totaled 10,049 million yen, an increase of 440 million yen over the end of the previous fiscal year. This was mainly due to an increase of 91 million yen in share capital through exercise of share acquisition rights, an increase of 332 million yen in capital surplus mainly through exercise of share acquisition rights and share exchanges, profit attributable to owners of parent of 138 million yen, profit attributable to non-controlling interests of 65 million yen, and a decrease of 203 million yen in retained earnings due to dividend payments.

(3) Management Policy and Strategy

During the first quarter of the current fiscal year, there was no material change in the management policy and strategy formulated by the Group.

2. Condensed Quarterly Consolidated Financial Statements and Notes**(1) Condensed Quarterly Consolidated Statement of Financial Position**

(Thousands of yen)

	FY6/19 (As of Jun. 30, 2019)	First quarter of FY6/20 (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	6,393,530	7,512,163
Trade and other receivables	3,251,866	3,423,295
Other current financial assets	-	228
Inventories	175,097	194,401
Other current assets	345,443	301,810
Total current assets	10,165,937	11,431,899
Non-current assets		
Property, plant and equipment	471,845	443,304
Right of use asset	-	1,172,030
Goodwill	6,192,006	6,410,457
Intangible assets	1,034,527	1,074,225
Other financial assets	774,930	951,444
Deferred tax assets	45,953	34,192
Other non-current assets	9,741	8,869
Total non-current assets	8,529,005	10,094,524
Total assets	18,694,943	21,526,424
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	2,119,119	1,901,557
Bonds and borrowings	1,974,211	3,447,796
Lease obligations	478	223,661
Income taxes payable	377,295	81,755
Other current liabilities	513,640	490,036
Total current liabilities	4,984,745	6,144,808
Non-current liabilities		
Bonds and borrowings	4,004,387	4,295,221
Lease obligations	12,283	959,268
Deferred tax liabilities	54,779	47,564
Other non-current liabilities	30,476	30,493
Total non-current liabilities	4,101,927	5,332,547
Total liabilities	9,086,672	11,477,356
Equity		
Equity attributable to owners of parent		
Share capital	1,607,988	1,699,403
Capital surplus	556,277	888,353
Retained earnings	4,762,540	4,697,403
Treasury shares	(9)	(9)
Other components of equity	83,796	102,277
Total equity attributable to owners of parent	7,010,593	7,387,429
Non-controlling interests	2,597,677	2,661,638
Total equity	9,608,270	10,049,068
Total liabilities and equity	18,694,943	21,526,424

(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income**Condensed Quarterly Consolidated Statement of Income**

(Thousands of yen)

	First three months of FY6/19 (Jul. 1, 2018 – Sep. 30, 2018)	First three months of FY6/20 (Jul. 1, 2019 – Sep. 30, 2019)
Revenue	3,959,495	4,111,193
Cost of sales	(2,533,632)	(2,677,143)
Gross profit	1,425,863	1,434,049
Selling, general and administrative expenses	(948,904)	(1,127,287)
Other income	1,994	1,733
Other expenses	(2,717)	(1,680)
Operating profit	476,236	306,814
Finance income	4,260	4,706
Finance costs	(6,241)	(8,450)
Profit before tax	474,254	303,070
Income tax expense	(145,216)	(99,103)
Profit	329,037	203,966
Profit attributable to		
Owners of parent	204,415	138,523
Non-controlling interests	124,622	65,443
Profit	329,037	203,966
Earnings per share		
Basic earnings per share (Yen)	12.08	8.10
Diluted earnings per share (Yen)	11.81	7.97

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First three months of FY6/19 (Jul. 1, 2018 – Sep. 30, 2018)	First three months of FY6/20 (Jul. 1, 2019 – Sep. 30, 2019)
Profit	329,037	203,966
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	13,588	19,535
Total other comprehensive income, net of tax	13,588	19,535
Comprehensive income	342,626	223,502
Comprehensive income attributable to		
Owners of parent	217,996	158,244
Non-controlling interests	124,630	65,257
Comprehensive income	342,626	223,502

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First three months of FY6/19 (Jul. 1, 2018 – Sep. 30, 2018)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2018	1,594,118	573,917	4,182,249	-	98,628	6,448,913
Cumulative effect of accounting change	-	-	6,600	-	-	6,600
Restated balance	1,594,118	573,917	4,188,849	-	98,628	6,455,513
Profit	-	-	204,415	-	-	204,415
Total other comprehensive income	-	-	-	-	13,581	13,581
Comprehensive income	-	-	204,415	-	13,581	217,996
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(169,171)	-	-	(169,171)
Purchase of treasury shares	-	-	-	(9)	-	(9)
Exercise of share acquisition rights	2,494	2,494	-	-	(68)	4,919
Acquisition and disposal of non-controlling interests	-	(332)	-	-	-	(332)
Total transactions with owners	2,494	2,161	(169,171)	(9)	(68)	(164,593)
Balance as of Sep. 30, 2018	1,596,612	576,078	4,224,093	(9)	112,141	6,508,916

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2018	2,196,533	8,645,446
Cumulative effect of accounting change	-	6,600
Restated balance	2,196,533	8,652,046
Profit	124,622	329,037
Total other comprehensive income	7	13,588
Comprehensive income	124,630	342,626
Share-based remuneration transactions of subsidiaries	(1,305)	(1,305)
Dividends	-	(169,171)
Purchase of treasury shares	-	(9)
Exercise of share acquisition rights	-	4,919
Acquisition and disposal of non-controlling interests	1,637	1,305
Total transactions with owners	332	(164,261)
Balance as of Sep. 30, 2018	2,321,495	8,830,412

First three months of FY6/20 (Jul. 1, 2019 – Sep. 30, 2019)

(Thousands of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	Total equity attributable to owners of parent
Balance as of Jul. 1, 2019	1,607,988	556,277	4,762,540	(9)	83,796	7,010,593
Profit	-	-	138,523	-	-	138,523
Total other comprehensive income	-	-	-	-	19,721	19,721
Comprehensive income	-	-	138,523	-	19,721	158,244
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(203,659)	-	-	(203,659)
Issuance of new shares	-	239,365	-	-	-	239,365
Exercise of share acquisition rights	91,415	91,415	-	-	(1,870)	180,960
Issuance of share acquisition rights	-	-	-	-	629	629
Acquisition and disposal of non-controlling interests	-	1,296	-	-	-	1,296
Total transactions with owners	91,415	332,076	(203,659)	-	(1,241)	218,591
Balance as of Sep. 30, 2019	1,699,403	888,353	4,697,403	(9)	102,277	7,387,429

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2019	2,597,677	9,608,270
Profit	65,443	203,966
Total other comprehensive income	(185)	19,535
Comprehensive income	65,257	223,502
Share-based remuneration transactions of subsidiaries	(4,758)	(4,758)
Dividends	-	(203,659)
Issuance of new shares	-	239,365
Exercise of share acquisition rights	-	180,960
Issuance of share acquisition rights	-	629
Acquisition and disposal of non-controlling interests	3,462	4,758
Total transactions with owners	(1,296)	217,295
Balance as of Sep. 30, 2019	2,661,638	10,049,068

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First three months of FY6/19 (Jul. 1, 2018 – Sep. 30, 2018)	First three months of FY6/20 (Jul. 1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Profit before tax	474,254	303,070
Depreciation and amortization	32,688	175,566
Loss on retirement of fixed assets	4,545	-
Finance income	(3,734)	(4,706)
Finance costs	6,241	8,255
Decrease (increase) in trade and other receivables	(70,258)	333,252
Increase (decrease) in trade and other payables	(115,189)	(214,497)
Decrease (increase) in inventories	(40,058)	(19,026)
Other	142,877	17,143
Subtotal	431,367	599,057
Interest and dividends received	1,483	146
Interest paid	(3,615)	(5,976)
Income taxes refund (paid)	(208,940)	(398,192)
Net cash provided by (used in) operating activities	220,295	195,034
Cash flows from investing activities		
Purchase of property, plant and equipment	(13,801)	(27,024)
Purchase of intangible assets	(9,851)	(127,155)
Payments for loans receivable	(391)	(500,000)
Payments of leasehold deposits and guarantee deposits	(7,352)	(135,221)
Proceeds from refund of leasehold deposits and guarantee deposits	78	101
Other	298	286
Net cash provided by (used in) investing activities	(31,020)	(789,014)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	733,332	1,333,332
Proceeds from long-term borrowings	-	762,000
Repayments of long-term borrowings	(214,834)	(341,341)
Repayments of lease obligations	(4,849)	(36,203)
Proceeds from exercise of share acquisition rights	4,919	180,960
Purchase of treasury shares	(9)	-
Dividends paid	(147,239)	(196,962)
Other	38	(430)
Net cash provided by (used in) financing activities	371,358	1,701,355
Effect of exchange rate changes on cash and cash equivalents	865	(420)
Net increase (decrease) in cash and cash equivalents	561,498	1,106,955
Cash and cash equivalents at beginning of period	4,950,509	6,393,530
Increase in cash and cash equivalents by share exchanges	-	11,677
Cash and cash equivalents at end of period	5,512,008	7,512,163

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

The registered address of its head office is disclosed on its corporate website (<https://scalagr.jp/>).

Scala's condensed quarterly consolidated financial statements for the three months ended September 30, 2019 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the "i-search" and "i-ask" brands; the sales support system branded "e-Sales Manager" and marketing support services including field activities at retail stores; and customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's condensed quarterly consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* pursuant to the provisions of Article 93 of Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 64 of 2007) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Order. As the condensed quarterly consolidated financial statements for the first quarter of the current fiscal year do not include all the information required in the consolidated financial statements for the fiscal year, they should be used in conjunction with the consolidated financial statements for the previous fiscal year.

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on November 14, 2019.

(2) Basis of measurement

The Group's condensed quarterly consolidated financial statements are prepared on a cost basis, except specific financial instruments and other items that are measured at fair value.

(3) Functional currency and presentation currency

The Group's condensed quarterly consolidated financial statements are presented in Japanese yen, which is Scala's functional currency, and figures are rounded down to the nearest thousand yen.

(4) Reclassifications

(Condensed quarterly consolidated statement of financial position)

From the first quarter of the current fiscal year, "Lease obligations" included in "Other current liabilities" (current) and "Lease obligations" included in "Other non-current liabilities" (non-current) in the previous fiscal year has been presented as separate line items due to an increase in their monetary materiality. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Consequently, in the consolidated statement of financial position for the previous fiscal year, "Other current liabilities" (current) of 514,119 thousand yen has been reclassified into "Lease obligations" (current) of 478 thousand yen and "Other current liabilities" (current) of 513,640 thousand yen; and "Other non-current liabilities" (non-current) of 42,760 thousand yen into "Lease obligations" (non-current) of 12,283 thousand yen and "Other non-current liabilities" (non-current) of 30,476 thousand yen.

(Condensed quarterly consolidated statement of cash flows)

From the first quarter of the current fiscal year, “Payments for loans receivable” included in “Other” of “Cash flows from investing activities” in the first quarter of the previous fiscal year has been presented as a separate line item in the first quarter of the current fiscal year due to an increase in its monetary materiality. To reflect this change in the presentation method, the consolidated financial statements for the first quarter of the previous fiscal year have been reclassified.

Consequently, in the condensed quarterly consolidated statement of cash flows for the first quarter of the previous fiscal year, “Other” of negative 93 thousand yen presented in “Cash flows from investing activities” has been reclassified into “Payments for loans receivable” of negative 391 thousand yen and “Other” of 298 thousand yen.

3. Significant Accounting Policies

(Changes in Accounting Policies)

The significant accounting policies applied for the condensed quarterly consolidated financial statements for the current fiscal year remain the same as those applied for the consolidated financial statements for the previous fiscal year except the following items.

It is noted that income tax expense for the first quarter of the current fiscal year is determined based on the estimated annual effective tax rate.

The Group has adopted the following standard starting from the first quarter of the current fiscal year.

IFRS	Description of new and amended standards
IFRS 16 <i>Leases</i> (issued in January 2016)	Amendments to accounting treatment for leases

The Group has applied IFRS 16 by using the modified retrospective approach, under which the comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized at the date of initial application (July 1, 2019). In transitioning to IFRS 16, the Group has elected to apply the practical expedient provided in IFRS 16 paragraph C3 and maintained its assessment of whether a contract contains a lease under IAS 17 *Leases* (“IAS 17”) and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

The Group recognized lease obligations at the date of initial application of IFRS 16 for leases that it previously classified as operating leases under IAS 17. The lease obligations are measured at the present value of outstanding lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates applied to the lease obligations recognized on the consolidated statement of financial position at the date of initial application is 0.3%.

The following table shows reconciliation of the obligations for operating lease contracts under IAS 17 at the end of the previous fiscal year and the lease obligations recognized on the consolidated statement of financial position at the date of initial application.

(Thousands of yen)

	Amount
Operating lease contracts disclosed as of June 30, 2019	48,941
Operating lease contracts disclosed as of June 30, 2019 (discounted at the incremental borrowing rate)	48,911
Finance lease obligations (as of June 30, 2019)	12,762
Amount accounted for as short-term leases	(44,511)
Cancellable operating lease contracts	518,871
Lease obligations as of July 1, 2019	534,034

There is no impact of applying IFRS 16 on the beginning balance of retained earnings.

In applying IFRS 16, the Group used the following practical expedients:

- A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics,
- A lessee may rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to

performing an impairment review,

- A lessee may account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases,
- A lessee may exclude initial direct costs from the measurement of the right of use asset at the date of initial application, and
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of the condensed quarterly consolidated financial statements requires the management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results, however, could differ from these estimates.

These estimates and underlying assumptions are consistently reviewed. The effect of changes in accounting estimates is recognized in the reporting period in which the changes are made and in any future reporting periods affected.

The management has made estimates and judgments that have a material impact on the amounts reported in the condensed quarterly consolidated financial statements for the first quarter of the current fiscal year in the same way as it did in the consolidated financial statements for the previous fiscal year.

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and that the Board of Directors regularly reviews to make decisions about allocations of corporate resources and assess their performance.

The SaaS/ASP business provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the "i-search" and "i-ask" brands.

The SFA business sells licenses for sales support systems and provides cloud services, customized development, sales consulting, sales skill training, business process consulting utilizing iPads and other devices, and education services.

The field marketing business provides marketing support services including field activities and market research.

The customer support business provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.

(2) Information related to revenue and profit or loss and other items for each reportable segment

First three months of FY6/19 (Jul. 1, 2018 – Sep. 30, 2018)

(Thousands of yen)

	Reportable segment					Other (Note 1)	Adjustments (Note 2)	Amounts shown on condensed quarterly consolidated financial statements (Note 3)
	SaaS/ASP Business	SFA Business	Field Marketing Business	Customer Support Business	Subtotal			
Revenue								
Sales to external customers	843,046	1,124,472	940,607	656,592	3,564,718	394,776	-	3,959,495
Inter-segment sales and transfers	6,261	7,152	464	-	13,877	8,630	(22,508)	-
Total	849,307	1,131,624	941,071	656,592	3,578,596	403,407	(22,508)	3,959,495
Operating profit (loss)	136,302	196,388	72,353	11,457	416,501	59,501	232	476,236
Finance income								4,260
Finance costs								(6,241)
Profit before tax								474,254

Notes: 1. The "Other" segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the system development business and the publishing business.

2. The 232 thousand yen adjustment to operating profit includes adjustment of fixed assets of 186 thousand yen and inventory adjustments of 46 thousand yen.

3. Operating profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.

4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First three months of FY6/20 (Jul. 1, 2019 – Sep. 30, 2019)								(Thousands of yen)	
	Reportable segment						Other (Note 1)	Adjustments (Note 2)	Amounts shown on condensed quarterly consolidated financial statements (Note 3)
	SaaS/ASP Business	SFA Business	Field Marketing Business	Customer Support Business	Subtotal				
Revenue									
Sales to external customers	1,030,323	1,105,264	1,025,103	549,080	3,709,772	401,421	-	4,111,193	
Inter-segment sales and transfers	13,344	9,317	485	5,413	28,560	9,029	(37,589)	-	
Total	1,043,668	1,114,581	1,025,588	554,493	3,738,332	410,451	(37,589)	4,111,193	
Operating profit (loss)	115,402	90,878	72,988	10,439	289,709	16,985	119	306,814	
Finance income								4,706	
Finance costs								(8,450)	
Profit before tax								303,070	

- Notes: 1. The “Other” segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the system development business and the publishing business.
2. The 119 thousand yen adjustment to operating profit includes adjustment of fixed assets of 99 thousand yen and inventory adjustments of 20 thousand yen.
3. Operating profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
4. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

Material Subsequent Events

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with International Financial Reporting Standards (IFRS), for the convenience of readers who prefer an English translation.