May 15, 2020

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2020 (Nine Months Ended March 31, 2020) [IFRS]

Company name:	Scala, Inc.	Listing: Tokyo Stock Exchange, First Section	
Stock code:	4845	URL: https://scalagrp.jp/	
Representative:	Norikatsu Nagino, Representative Director & President		
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Scheduled date of filing of Quarterly Report: May 15, 2020
Scheduled date of payment of dividend: -
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 – March 31, 2020)

(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	%
Nine months ended Mar. 31, 2020	12,853	0.6	1,036	(39.1)	1,022	(39.6)	664	(41.6)	373	(50.5)
Nine months ended Mar. 31, 2019	12,781	41.2	1,702	38.9	1,692	38.7	1,138	34.9	754	35.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Mar. 31, 2020	21.53	21.29
Nine months ended Mar. 31, 2019	44.58	43.82

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 – March 31, 2020)

(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	%
Nine months ended Mar. 31, 2020	12,853	0.6	1,146	(32.7)	1,132	(33.1)	775	(31.9)	484	(35.8)
Nine months ended Mar. 31, 2019	12,781	41.2	1,702	38.9	1,692	38.7	1,138	34.9	754	35.8

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, expenses on procurement of equipment and supplies and those on rebranding implemented on the occasion of the relocation) of 110 million yen were deducted from the line items below operating profit in the Nine months ended March 31, 2020.

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Mar. 31, 2020	27.90	27.59
Nine months ended Mar. 31, 2019	44.58	43.82

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2019	-	12.00	-	12.00	24.00
Fiscal year ending Jun. 30, 2020	-	14.00	-		
Fiscal year ending Jun. 30, 2020 (forecasts)				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 Mar. 31, 2020	22,393	10,125	7,375	32.9	421.27
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): None

Newly added: - 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 Mar. 31, 2020: 17,506,959 shares As of Jun. 30, 2019: 16,971,659 shares

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

As of Mar. 31, 2020: 8 shares As of Jun. 30, 2019: 8 shares

3) Average number of outstanding shares during the period

Nine months ended Mar. 31, 2020: 17,365,700 shares Nine months ended Mar. 31, 2019: 16,929,532 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.

Contents of Attachments

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 mainly by devoting more human resources to growth areas, expanding business through M&A as well as making more efficient use of corporate resources.

Though it has been difficult to make a sales approach to potential clients since the economic environment became even more uncertain due to the effect of COVID-19 pandemic, the Group has made such efforts as actively hiring new employees and improving service infrastructure for future business development.

As a result, while the Group reported a slightly increased revenue of 12,853 million yen (up 0.6% year-on-year) for the first nine months of the fiscal year ending June 30, 2020 (“the period under review”), the Group reported operating profit of 1,036 million yen (down 39.1% year-on-year), profit before tax of 1,022 million yen (down 39.6% year-on-year), profit of 664 million yen (down 41.6% year-on-year) and profit attributable to owners of parent of 373 million yen (down 50.5% 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 our stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps them 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 the first nine months of the previous fiscal year, no adjustments were made to calculate the non-GAAP measures.

During the period under review, 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, recurring revenue increased cumulatively as a result of flexibly responding to the needs of customers. During the period under review, there has been steady progress in the number of customers who used our services. In addition, as disclosed in the Medium-term Business Plan, we focused on businesses related to regional revitalization and the number of municipalities that adopted our services increased steadily.

Specifically, the “i-search,” an intra-website search service, has been adopted by Kurume City, Sano City and others. “IVR (Interactive Voice Response),” a system that enables a user to make various applications by the phone, has been adopted by Sompo Japan Insurance Inc. as the service installed in LINE, and by SOMPO Systems Inc. and other companies as the service to respond to requests for cancellation which had been conventionally responded by call operators. The “i-ask,” a tool used to facilitate an “FAQ” service on websites and internal knowledge-sharing management, has been adopted by Kansai Transmission and Distribution, Inc., GiG Works AddValue Inc. and other companies.

Together with the “i-ask,” the “i-assist,” a chat bot service to automatically answer to texts entered by users on the website, has been adopted by Kitakyushu City and Showa Sangyo Co., Ltd. Using these two services in tandem can produce synergistic effect, which helps improve useability.

The “one-click car insurance quote system,” a system that won the Good Design Award 2019, for E.design Insurance Co., Ltd. under the Tokio Marine Group, is now made available on the Amazon website, which is linked with the “i-gift,” a digital gift service.

Moreover, a system utilizing the “i-gift” for promotional purposes has been adopted by Dyson Limited and that contributed to increasing the number of applications.

Furthermore, through a joint proposal with our subsidiary Connect Agency Inc., a service linking “Connect Agency,” a per-second phone charge billing system, with a mission-critical system “C7” has been adopted by NUWORKS Inc. Since this service has useful functionalities for call center operations such as enabling to make outbound calls directly from the web system, it is expected that the service is to be adopted by many other outbound sales companies.

As a result, while the segment revenue was 3,100 million yen (up 3.0% year-on-year), operating profit was 218 million yen (down 64.2% year-on-year) due to an increase in up-front expenses, including those for development for further growth and for active recruitment.

Operating profit under the non-GAAP measures was 328 million yen (down 46.0% 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

The sale of the CRM/SFA software “e-Sales Manager,” one of the Group’s mainstay products, showed strong performance mainly with recurring revenue. However, on the other hand, the education and consulting service business suffered postponement or cancellation of scheduled events mainly due to the effect of the COVID-19 infection.

As a result, during the period under review, the segment revenue was 3,746 million yen (up 4.3% year-on-year). In terms of profitability, operating profit was 513 million yen (down 27.0% year-on-year), mainly due to the up-front expenses, including those for development for further growth and personnel expenses on top of the situation mentioned above.

(iii) Field Marketing Business

The Group’s mainstay services such as the regular field business and the human resources dispatching business showed strong performance. However, because of the effect of the COVID-19 infection, demonstration sales service and other services were cancelled.

As a result, the segment revenue was 3,077 million yen (up 5.6% year-on-year) and operating profit was 200 million yen (down 12.3% year-on-year).

(iv) Customer Support Business

In this business segment, Leoconnect, Inc. generates revenue from contracts with customers for customer support consulting services. During the period under review, Leoconnect, Inc. received a new order from an electric power retailer to provide comprehensive consulting services including call center operations, recruitment and cost saving. In addition, the Group has consistently made certain achievements in proposals and orders received for and implementation of the Scala Communications’ SaaS/ASP service. The Group has also worked on streamlining low-margin outsourcing contracts to focus on providing more profitable services. As a result, while the segment revenue was 1,680 million yen (down 19.0% year-on-year), operating profit was 57 million yen (up 32.8% year-on-year).

(v) Other Businesses

In the EC business, Scala PLAYce Inc. (the company changed its trade name from plube Inc. as of January 27, 2020) operates an e-commerce site for buying and selling battle game trading cards. The EC business recorded revenue of 725 million yen (up 15.7% year-on-year) and operating profit of 58 million yen (up 5.6% year-on-year) for the period under review.

In the system development business, sales increased year-on-year thanks to an increase in sales to existing users. In terms of profitability, profit increased with efforts to secure profit through ongoing efforts to keep the cost under control with more rigorous project management. As a result, the system development business recorded revenue of 335 million yen (up 3.3% year-on-year) and operating profit of 10 million yen (down 59.0% year-on-year).

In the publishing business, sales decreased against a backdrop of a reduction in sales of books. As a result, the publishing business recorded revenue of 163 million yen (down 32.0% year-on-year) and operating profit of 13 million yen (down 63.3% year-on-year).

Overall, operating profit of the other businesses segment as a whole was 46 million yen (down 60.8% year-on-year) due to the incurrence of up-front and other expenses in the investment business.

(2) Explanation of Financial Position

Assets

Total assets amounted to 22,393 million yen at the end of the period under review, an increase of 3,698 million yen over the end of the previous fiscal year. This was mainly due to increases of 276 million yen in cash and cash equivalents, 746 million yen in trade and other receivables and 2,045 million yen in right-of-use assets arising from the adoption of IFRS 16.

Liabilities

Liabilities totaled 12,267 million yen, an increase of 3,181 million yen over the end of the previous fiscal year. This was mainly due to increases of 1,624 million yen in bonds and borrowings under current liabilities, 467 million yen in lease obligations arising from the adoption of IFRS 16 under current liabilities and 1,665 million yen in lease obligations arising from the adoption of IFRS 16 under non-current liabilities.

Equity

Equity totaled 10,125 million yen, an increase of 517 million yen over the end of the previous fiscal year. This was mainly due to increases of 95 million yen in share capital through exercise of share acquisition rights, 317 million yen in capital surplus through exercise of share acquisition rights and issuance of new shares, profit attributable to owners of parent of 373 million yen and profit attributable to non-controlling interests of 290 million yen, and a decrease of 448 million yen in retained earnings due to dividend payments.

(3) Management Policy and Strategy

During the period under review, 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)	Third quarter of FY6/20 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	6,393,530	6,670,342
Trade and other receivables	3,251,866	3,998,199
Inventories	175,097	207,851
Other current assets	345,443	204,261
Total current assets	10,165,937	11,080,655
Non-current assets		
Property, plant and equipment	471,845	649,338
Right-of-use asset	-	2,045,418
Goodwill	6,192,006	6,405,760
Intangible assets	1,034,527	1,149,691
Other financial assets	774,930	995,910
Deferred tax assets	45,953	59,435
Other non-current assets	9,741	7,227
Total non-current assets	8,529,005	11,312,782
Total assets	18,694,943	22,393,437
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	2,119,119	1,879,609
Bonds and borrowings	1,974,211	3,598,389
Lease obligations	478	467,996
Income taxes payable	377,295	52,614
Other current liabilities	513,640	524,434
Total current liabilities	4,984,745	6,523,043
Non-current liabilities		
Bonds and borrowings	4,004,387	3,890,865
Lease obligations	12,283	1,677,989
Deferred tax liabilities	54,779	39,009
Other non-current liabilities	30,476	136,793
Total non-current liabilities	4,101,927	5,744,658
Total liabilities	9,086,672	12,267,702
Equity		
Equity attributable to owners of parent		
Share capital	1,607,988	1,720,501
Capital surplus	556,277	892,753
Retained earnings	4,762,540	4,687,630
Treasury shares	(9)	(9)
Other components of equity	83,796	74,214
Total equity attributable to owners of parent	7,010,593	7,375,090
Non-controlling interests	2,597,677	2,750,644
Total equity	9,608,270	10,125,735
Total liabilities and equity	18,694,943	22,393,437

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

Condensed Quarterly Consolidated Statement of Income

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Revenue	12,781,756	12,853,155
Cost of sales	(8,103,004)	(8,172,993)
Gross profit	4,678,751	4,680,161
Selling, general and administrative expenses	(2,978,153)	(3,624,991)
Other income	14,270	23,985
Other expenses	(12,007)	(42,886)
Operating profit	1,702,861	1,036,268
Finance income	12,957	14,331
Finance costs	(23,560)	(28,529)
Profit before tax	1,692,258	1,022,070
Income tax expense	(554,078)	(357,246)
Profit	1,138,180	664,824
Profit attributable to		
Owners of parent	754,800	373,847
Non-controlling interests	383,380	290,977
Profit	1,138,180	664,824
Earnings per share		
Basic earnings per share (Yen)	44.58	21.53
Diluted earnings per share (Yen)	43.82	21.29

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Profit	1,138,180	664,824
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(13,870)	(8,316)
Total other comprehensive income, net of tax	(13,870)	(8,316)
Comprehensive income	1,124,309	656,507
Comprehensive income attributable to		
Owners of parent	740,917	365,618
Non-controlling interests	383,391	290,889
Comprehensive income	1,124,309	656,507

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 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, 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	-	-	754,800	-	-	754,800
Total other comprehensive income	-	-	-	-	(13,882)	(13,882)
Comprehensive income	-	-	754,800	-	(13,882)	740,917
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	-	-	-	-	-	-
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(372,473)	-	-	(372,473)
Purchase of treasury shares	-	-	-	(9)	-	(9)
Issuance of share acquisition rights	-	-	-	-	1,983	1,983
Exercise of share acquisition rights	10,078	10,078	-	-	(276)	19,879
Acquisition and disposal of non-controlling interests	-	28	-	-	-	28
Total transactions with owners	10,078	10,106	(372,473)	(9)	1,706	(350,592)
Balance as of Mar. 31, 2019	1,604,196	584,023	4,571,176	(9)	86,452	6,845,838

	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	383,380	1,138,180
Total other comprehensive income	11	(13,870)
Comprehensive income	383,391	1,124,309
Increase (decrease) by business combination	27,909	27,909
Share-based remuneration transactions	-	-
Share-based remuneration transactions of subsidiaries	(2,022)	(2,022)
Dividends	(117,078)	(489,552)
Purchase of treasury shares	-	(9)
Issuance of share acquisition rights	-	1,983
Exercise of share acquisition rights	-	19,879
Acquisition and disposal of non-controlling interests	(7,663)	(7,634)
Total transactions with owners	(98,854)	(449,446)
Balance as of Mar. 31, 2019	2,481,070	9,326,909

First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)

(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	-	-	373,847	-	-	373,847
Total other comprehensive income	-	-	-	-	(8,228)	(8,228)
Comprehensive income	-	-	373,847	-	(8,228)	365,618
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	-	17,000	-	-	-	17,000
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(448,757)	-	-	(448,757)
Issuance of new shares	17,000	222,365	-	-	-	239,365
Issuance of share acquisition rights	-	-	-	-	629	629
Exercise of share acquisition rights	95,513	95,513	-	-	(1,983)	189,043
Acquisition and disposal of non-controlling interests	-	1,598	-	-	-	1,598
Total transactions with owners	112,513	336,476	(448,757)	-	(1,353)	(1,120)
Balance as of Mar. 31, 2020	1,720,501	892,753	4,687,630	(9)	74,214	7,375,090

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2019	2,597,677	9,608,270
Profit	290,977	664,824
Total other comprehensive income	(88)	(8,316)
Comprehensive income	290,889	656,507
Increase (decrease) by business combination	-	-
Share-based remuneration transactions	-	17,000
Share-based remuneration transactions of subsidiaries	(18,268)	(18,268)
Dividends	(124,593)	(573,350)
Issuance of new shares	-	239,365
Issuance of share acquisition rights	-	629
Exercise of share acquisition rights	-	189,043
Acquisition and disposal of non-controlling interests	4,940	6,539
Total transactions with owners	(137,921)	(139,042)
Balance as of Mar. 31, 2020	2,750,644	10,125,735

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before tax	1,692,258	1,022,070
Depreciation and amortization	331,659	666,925
Loss on retirement of fixed assets	11,188	37,257
Finance income	(12,957)	(14,331)
Finance costs	22,541	28,421
Decrease (increase) in trade and other receivables	(306,581)	(105,788)
Increase (decrease) in trade and other payables	(278,993)	(209,981)
Decrease (increase) in inventories	(16,393)	(32,882)
Other	194,509	(49,842)
Subtotal	1,637,231	1,341,848
Interest and dividends received	4,718	5,282
Interest paid	(16,567)	(23,584)
Income taxes refund (paid)	(518,488)	(685,486)
Net cash provided by (used in) operating activities	1,106,893	638,060
Cash flows from investing activities		
Purchase of property, plant and equipment	(106,329)	(263,280)
Purchase of intangible assets	(212,520)	(381,209)
Purchase of investment securities	-	(42,420)
Payments for acquisition of subsidiaries	(342,959)	-
Payments for loans receivable	(1,340)	(500,460)
Payments of leasehold deposits and guarantee deposits	(13,706)	(251,371)
Proceeds from refund of leasehold deposits and guarantee deposits	20,916	81,689
Other	788	(2,033)
Net cash provided by (used in) investing activities	(655,151)	(1,359,085)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,199,999	1,489,999
Proceeds from long-term borrowings	2,633,500	1,212,000
Repayments of long-term borrowings	(985,081)	(1,132,081)
Proceeds from issuance of bonds	100,000	150,000
Redemption of bonds	(216,000)	(220,000)
Repayments of lease liabilities	(5,081)	(127,647)
Dividends paid	(375,154)	(445,921)
Dividends paid to non-controlling interests	(126,735)	(120,532)
Proceeds from exercise of share acquisition rights	19,879	189,043
Proceeds from issuance of share acquisition rights	1,983	629
Purchase of treasury shares	(9)	-
Other	(7,120)	(9,164)
Net cash provided by (used in) financing activities	2,240,178	986,324
Effect of exchange rate changes on cash and cash equivalents	347	(165)
Net increase (decrease) in cash and cash equivalents	2,692,268	265,134
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	7,642,778	6,670,342

(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://scalagrp.jp/).

Scala's condensed quarterly consolidated financial statements for the nine months ended March 31, 2020 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 period under review 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 May 15, 2020.

(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.

3. Significant Accounting Policies

(Changes in Accounting Policies)

The significant accounting policies applied for the condensed quarterly consolidated financial statements for the period under review 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 period under review 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 *Leases* (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	516,871
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 period under review 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 nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019) (Thousands of yen)

	Reportable segment							Amounts shown on condensed quarterly consolidated financial statements (Note 3)
	SaaS/ASP Business	SFA Business	Field Marketing Business	Customer Support Business	Subtotal	Other (Note 1)	Adjustments (Note 2)	
Revenue								
Sales to external customers	3,010,482	3,592,298	2,912,951	2,073,822	11,589,554	1,192,201	-	12,781,756
Inter-segment sales and transfers	31,748	27,035	1,745	7,067	67,595	29,534	(97,129)	-
Total	3,042,230	3,619,333	2,914,696	2,080,889	11,657,150	1,221,735	(97,129)	12,781,756
Operating profit (loss)	609,124	703,891	228,325	43,681	1,585,023	117,798	39	1,702,861
Finance income								12,957
Finance costs								(23,560)
Profit before tax								1,692,258

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 39 thousand yen adjustment to operating profit includes elimination of unrealized profits of (343) thousand yen, adjustment of non-current assets of 198 thousand yen and inventory adjustments of 184 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 nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020) (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	3,100,088	3,746,043	3,077,430	1,680,315	11,603,878	1,249,277	-	12,853,155
Inter-segment sales and transfers	42,933	24,496	1,459	25,548	94,437	10,779	(105,217)	-
Total	3,143,021	3,770,540	3,078,889	1,705,864	11,698,316	1,260,056	(105,217)	12,853,155
Operating profit (loss)	218,086	513,596	200,197	57,995	989,875	46,197	195	1,036,268
Finance income								14,331
Finance costs								(28,529)
Profit before tax								1,022,070

Notes: 1. The “Other” segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the investment business, the corporate value consulting business, the system development business and the publishing business.
2. The 195 thousand yen adjustment to operating profit includes elimination of unrealized profits of 65 thousand yen, adjustment of non-current assets of 96 thousand yen and inventory adjustments of 34 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

Making Grit Group Holdings Co., Ltd. a wholly owned subsidiary through acquisition of shares

(1) Overview of business combination

On April 1, 2020, Scala acquired 100% shares of Grit Group Holdings Co., Ltd. (Head office: Shinjuku-ku, Tokyo; Representative Director: Hideto Yamazaki, hereinafter “GGH”) and made it a subsidiary.

Scala has developed solid recurring revenue streams mainly in SaaS/ASP business. To further grow its business, Scala announced in the Medium-term Business Plan disclosed on August 14, 2019 the plan to become a “value co-creation company solving social problems with clients through business.” Based on three capabilities that have been developed in Scala: “Capability to determine real issues,” “Capability to discover hidden value of resources” and “Capability to maximize value by proposing and executing optimal combination of issues and resources,” Scala plans to provide services not only to companies in Japan but to companies, governments and municipalities in Japan and overseas.

The GGH Group supports to maximize value of an individual human and their experience. Under its corporate slogan: “Grit for all”—giving courage to carry through to all people, the GGH Group aims to create a society where all people have hopes in their lives. GGH started human resources business specializing in supporting employment of athletes in 1997 and now has expanded business to socially important businesses such as sports business, infant education and regional revitalization in and outside of Japan. GGH has had substantial business transactions with governments and municipalities in addition to companies.

Having realized that Scala and GGH have many things in common such as corporate philosophy, vision of the ideal society and worldview, we developed empathic connection with each other. We believe that this empathy will lead to synergy in promoting businesses.

(2) Compensation as of the acquisition date and fair value of the acquired assets and liabilities

As fair values of the assets acquired and the liabilities assumed as of the date on which the acquiring company obtains control of the acquired company is now being determined, the amounts have yet to be finalized.

(3) Cash flow related to the acquisition

	(Thousands of yen)
	Amount
Cash and cash equivalents paid for the acquisition	(500,000)
Cash and cash equivalents held by the acquired company on the acquisition date	12,785
Total	(487,214)

(4) Impacts on business performance

The precise financial data on GGH prior to the acquisition is now under review, thus the impacts on business performance are not disclosed in this report.

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.