February 15, 2021

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2021 (Six Months Ended December 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: February 15, 2021
Scheduled date of payment of dividend: February 22, 2021
Preparation of supplementary materials for quarterly financial results: None
Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Management Performance Measures under IFRS

Consolidated Results of Operations (July 1, 2020 – December 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	%
Six months ended Dec. 31, 2020	4,285	17.5	25	(87.8)	7	(96.2)	258	(45.3)	137	(45.9)
Six months ended Dec. 31, 2019	3,646	-	209	-	197	-	473	(37.4)	255	(44.3)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Dec. 31, 2020	7.87	7.80
Six months ended Dec. 31, 2019	14.76	14.56

Note: As a tender offer by C5-8 Holdings Co., Ltd. for SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary, was completed on November 10, 2020, the businesses that SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation. Accordingly, revenue, operating profit, and profit before tax in the above table present the amounts of those from continuing operations. Note that the year-on-year changes for the six months ended December 31, 2019 are not presented since the figures for the period are also reclassified in the same manner. For details of the discontinued operations, please refer to "2. Condensed Quarterly Consolidated Financial Statements and Notes, (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations)" on page 21 of Attachments.

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 3 of Attachments.

Consolidated Results of Operations (July 1, 2020 – December 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	%
Six months ended Dec. 31, 2020	4,285	17.5	68	(76.5)	50	(82.0)	288	(48.0)	167	(50.2)
Six months ended Dec. 31, 2019	3,646	-	290	-	279	-	554	(26.7)	336	(26.6)

Notes: 1. Revenue, operating profit, and profit before tax in the table above present the amounts of those from continuing operations. Note that the year-on-year changes for the six months ended December 31, 2019 are not presented since the figures for the period are also reclassified in the same manner.
2. 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 81 million yen were deducted from the line items below operating profit in the six months ended December 31, 2019.
3. Expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary, (consisting of financial advisory fees and legal fees) and expenses incurred on the relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) of 42 million yen were deducted from the line items below operating profit for the six months ended December 31, 2020.

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Dec. 31, 2020	9.56	9.47
Six months ended Dec. 31, 2019	19.45	19.19

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2020	-	14.00	-	14.00	28.00
Fiscal year ending Jun. 30, 2021	-	16.00			
Fiscal year ending Jun. 30, 2021 (forecasts)			-	16.00	32.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2021 under IFRS (July 1, 2020 – June 30, 2021)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	9,000 to 12,000	-	100 to 500	-	100 to 500	-	2,700 to 3,100	-	2,700 to 3,100	-	154.19 to 177.04

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

Revenue, operating profit, and profit before tax in the earnings forecast for the fiscal year ending June 30, 2021 present the amounts of those from continuing operations, while profit and profit attributable to owners of parent present the aggregate amounts of those from continuing and discontinued operations. Please note that year-on-year changes are not presented in the table above.

5. 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 Dec. 31, 2020	24,626	10,331	7,308	29.7	415.98
As of Jun. 30, 2020	24,912	10,343	7,402	29.7	422.79

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

(3) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)
As of Dec. 31, 2020: 17,570,259 shares As of Jun. 30, 2020: 17,509,859 shares
2) Number of treasury shares as of the end of the period
As of Dec. 31, 2020: 8 shares As of Jun. 30, 2020: 8 shares
3) Average number of outstanding shares during the period
Six months ended Dec. 31, 2020: 17,529,035 shares Six months ended Dec. 31, 2019: 17,295,843 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.

Scala, Inc. (“the Company”) reclassified the businesses of SOFTBRAIN Co., Ltd., the Company’s consolidated subsidiary, and its subsidiaries, which were formerly included in SFA Business and Field Marketing Business, as a discontinued operation, following the completion of a tender offer to SOFTBRAIN Co., Ltd. in the second quarter of the current fiscal year. Accordingly, the Group has changed the reportable segment structure from the former four segments consisting of SaaS/ASP Business, SFA Business, Field Marketing Business, and Customer Support Business to the five segments consisting of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business from the first half of the fiscal year ending June 30, 2021 (“the period under review”).

The segment structure before and after the change is as follows.

Comparison of Former and New Segment Structures

Former segments	Company name	New segments
SaaS/ASP Business	Scala Communications, Inc.	IT/AI/IoT/DX Business
	Scala Service, Inc.	
	Scala Next, Inc.	
	Connect Agency, Inc.	
	Scala, Inc.	Incubation & Investment Business
SFA Business	SOFTBRAIN Co., Ltd.	– (Discontinued Operation)
	SOFTBRAIN SERVICE Co. Ltd.	
	SOFTBRAIN INTEGRATION Co., Ltd.	
Field Marketing Business	SOFTBRAIN FIELD Co., Ltd.	
Customer Support Business	Leoconnect, Inc.	Customer Support Business
Other Businesses	SOFTBRAIN OFFSHORE Co., Ltd.	– (Discontinued Operation)
	Diamond Business Planning Inc.	
	Grit Group Holdings, Inc.	HR & Education Business
	Athlete Planning, Inc.	
	Sports Stories, Inc.	
	FourHands, Inc.	
	Retool, Inc.	IT/AI/IoT/DX Business
	Social Studio Inc.	
	Scala PLAYce, Inc.	EC Business
	Scala Partners, Inc.	Incubation & Investment Business
	J-Phoenix Research Inc.	
	SCL Capital LLC	
	SCSV-1 Investment Limited Partnership	

New Segments

New segments	Company name
IT/AI/IoT/DX Business	Scala Communications, Inc.
	Scala Service, Inc.
	Scala Next, Inc.
	Connect Agency, Inc.
	Retool, Inc.
	Social Studio Inc.
Customer Support Business	Leoconnect, Inc.
HR & Education Business	Grit Group Holdings, Inc.
	Athlete Planning, Inc.
	Sports Stories, Inc.
	FourHands, Inc.
EC Business	Scala PLAYce, Inc.
Incubation & Investment Business	Scala, Inc.
	Scala Partners, Inc.
	J-Phoenix Research Inc.
	SCL Capital LLC
	SCSV-1 Investment Limited Partnership

(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.

As a result, the Group reported revenue of 4,285 million yen (up 17.5% year on year) for the period under review.

Profits decreased due to the following reasons: aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major digital transformation (DX) projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses; seasonal fluctuation of profit in HR & education business; and the effects of the spread of the COVID-19 infection. As a result, the Group reported operating profit of 25 million yen (down 87.8%), profit before tax of 7 million yen (down 96.2%), and loss from continuing operations of 19 million yen (compared with a profit of 98 million yen in the same period a year earlier).

On the other hand, the Group reported profit from discontinued operations of 278 million yen, and profit attributable to owners of parent of 137 million yen (down 45.9%).

In addition, in order to realize the medium-term business plan, the Group has been actively pushing forward initiatives for various new businesses: additional investment from a value co-creation engagement fund and its management in the value co-creation management support business domain; proposals on DX for large enterprises and local governments in the IT/AI/IoT-related business domain; and employment promotion in developing countries (enhancement of offshore development bases), development of the personal growth model and the release of associated services utilizing the data in medical, agricultural, and educational areas as well as support for the development of HR Tech to promote the employment of the disabled in the social problem-solving business domain.

(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 half of the previous 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).

During the period under review, adjustments were made for expenses incurred on the transfer of common shares of the Company's consolidated subsidiary SOFTBRAIN Co., Ltd. (consisting of financial advisory fees and legal fees) and expenses incurred on the relocation of the head office of the Company's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.).

Business segment performance was as follows.

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

(i) IT/AI/IoT/DX Business

As for existing services, recurring monthly revenue decreased in the short term due to the cancellation of some related services driven by the cost reduction initiatives of client companies, downsizing of customer service centers, and cancellation and rescheduling of marketing initiatives. On the other hand, introduction of our main services for communication support in remote work such as "i-ask," "i-assist," and "i-livechat" has been ongoing, despite a prolonged lead time for introduction.

Specifically, we took a new order of "i-ask," a FAQ management system from ROHTO Pharmaceutical Co., Ltd. for the disclosure and management of FAQ pages for customers, with its public site featuring customized design for the company. We also took a new order of the system from MEGMILK SNOW BRAND Co., Ltd. for the integrated management of knowledge data at the customer service division, and the system is expected to contribute to further improve the quality of its customer service.

Also, Connect Agency, Inc. has pushed forward with proposals to integrate telephone line, softphone, and mission-critical system, having enabled "C7," its cloud-based mission-critical system to link with softphone.

Note that we have been tackling the corporate value creation of our client companies through combining the digital transformation (DX) support with the know-how owned by J-Phoenix Research Inc. on value co-creation management support including investor relations.

As a result, the segment revenue was 1,933 million yen (down 5.8% year on year).

On the profitability front, segment profit was 424 million yen (down 28.1%) before allocation of corporate expenses, and 305 million yen (down 27.5%) after allocation of corporate expenses, due to active up-front investment for new businesses in the future: recruiting human resources for new businesses; promoting the recruitment of young talent with high entrepreneurship as well as promoting communication with ventures with young entrepreneurs; and relocating the head office including the branding of the Group.

As the next step initiatives, we have been proactively collaborating with the partner companies with seasoned knowledge of respective industries and associated technologies, under the theme of the creation of new businesses and services as well as the redefinition of existing businesses and acceleration of regrowth, in addition to the promotion of DX for large enterprises leveraging the AI/IT/IoT technologies we have nurtured. Contribution to revenue is only expected from the fourth quarter of this fiscal year due to the large scale of projects, protracted development periods as well as multiple system development underway.

As a specific initiative, we have developed and started to implement a service dedicated to SDGs, "Reverse

Solicitation Proposal Method" in partnership with Public dots & Company Co., Ltd. which facilitates co-creation between the public sectors and private sectors. The service is for private sectors including major companies and start-ups to solicit political approaches and ideas from public sectors for solving social issues, and enables private sectors which desire to promptly identify the social issues to solve and verify hypotheses to match with public sectors which, though financially constrained, proactively tackle issues from the perspectives of local residents.

Also, we have jointly started with Shinoken Group Co., Ltd. the research and development of "Trust DX Platform" utilizing "xID," a digital ID owned by xID Co. which we invest in, in order to materialize the online access of sales contracts and loan agreements in real estate transactions. We aim to break away from the old-fashioned work process with face-to-face transactions, paper documents and seals toward the free distribution of credit data through the platform.

Social Studio Inc., a joint venture with Branding Technology Inc., has started to solicit membership of the new business, "Workshop on the DX of local governments" through the internet. We will set up a working group for local governments which consolidates the knowledge and technologies at home and abroad for solving the issues of governmental agencies and local governments through promoting DX.

(ii) Customer Support Business

In this business segment, Leoconnect, Inc., a service provider of customer support consulting operations, has been advancing its business activities to win additional outsourcing projects, which it found temporarily difficult to achieve, affected by a decline in call center launch projects from the Hikari Tsushin group companies for their new products and services due to the COVID-19 crisis.

As a result, the business recorded segment revenue of 1,038 million yen (down 6.0% year on year), segment profit before allocation of corporate expenses of 26 million yen (down 20.4% year on year), and segment profit after allocation of corporate expenses of 4 million yen (down 61.1% year on year).

We have enhanced the functionality of "C7," a mission critical system originally specialized for small outbound call centers, and coordinated it with the IP-PBX service offered by Connect Agency Inc. The upgraded services are now offered and actively marketed to large outbound call centers. In addition, we are developing a price-competitive BPO (business process outsourcing) business in collaboration with VALT JAPAN CO., LTD., an employment support provider for people with disabilities. Utilizing the collaboration, we aim to improve profitability by outsourcing some of our current call center operations to VALT JAPAN.

(iii) HR & Education Business

In this business segment, Athlete Planning, Inc. provides recruitment support for new graduates and mid-career recruits, specialized for athletic students and college graduates with high potential and in high demand, as well as support for the planning and operation of related events such as joint information sessions and career seminars. With the ever-changing hiring practices, the company is examining ways to develop recruiting services with higher added value for both job seekers and hiring companies. The company also offers a recruitment support service called *Joshi-kyari* (which literally means career for women) designed specifically for female students. In recent years, companies have been working to promote the career advancement of women in response to such a social demand, and to endorse their initiatives in terms of employment of women, Athlete Planning is striving to further expand the *Joshi-kyari* business.

FourHands, Inc. provides a wide range of care services for children from infants to elementary school students mainly in Tokyo and Kanagawa Prefecture, including nursery school *Minna no Hoikuen* (which literally means a nursery school for everyone), international preschool Universal Kids, UK Academy for school children to foster international awareness, and after-school day service specialized in physical activities Largo Kids. These facilities feature programs aimed at improving cognitive abilities, food and nutrition education, unique high value-added childcare and education services, high quality childcare personnel and high retention rates, and customer loyalty in local communities. Child-rearing is one important component of the social community, and FourHands is collaborating and cooperating with other companies and industries that share its awareness of issues related to community-based child-rearing and are actively involved in community development.

Sports Stories, Inc. is engaged in the sports school business for children, including a baseball school Fine'Z, a soccer school BEAUT, a basketball school DANKERZ, and a school teaching *Ballschule*, a German word with a meaning of ball school. These schools are unique in that they not only focus on the development of athletic ability through sports, but also on the mental growth. In light of the impact of COVID-19, the company is working on online sports education in addition to its existing sports classes. It is also newly involved in the planning and managing of sports events.

In addition to the above, we provide support for foreign personnel placement, mainly in the nursing care field. While there is a growing need for human resources in the nursing care field in Japan, the hiring process and management of foreign personnel is complicated, and this places a heavy burden on the hiring entities. We support the field of nursing care by assisting them with these tasks. The mobility of human resources is still limited due to the effect of COVID-19, but we believe that the need for human resources to support the nursing care industry, especially those in Southeast Asia, remains high and will continue to grow in the future.

We normally start marketing joint information sessions for new graduates to companies in June every year, and hold the sessions from December to March of the following year. The preparation period for these events falls in the second quarter of a fiscal year of the Group, therefore, the revenue during the period is affected by seasonal fluctuations. During the same period in the fiscal year under review, the spread of COVID-19 made it difficult to conduct face-to-face sales activities, and some recruitment events were changed to be held online, resulting in a decline in the selling price per event booth to client companies. On the other hand, with regard to the operation of nursery schools and sports schools, the revenue remained solid due to our efforts to minimize the impact of COVID-19, although we did experience some inconvenience due to the pandemic, such as not being able to hold training camps.

As a result, the business recorded segment revenue of 657 million yen, segment loss before allocation of corporate expenses of 77 million yen, and segment loss after allocation of corporate expenses of 131 million yen.

Under the non-GAAP measures adjusted for subsidiary head office relocation expenses (consisting of retirement expenses for property, plant and equipment, etc.), segment loss before allocation of corporate expenses was 49 million yen, and segment loss after allocation of corporate expenses was 103 million yen.

(iv) EC Business

In the EC business, Scala PLAYce, Inc. operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages. As a leading online shop in the TCG industry, the company has been continuously refining its services. As part of the efforts, the company particularly focused on ongoing improvements to its in-house production systems (both front-end and back-end) and digital marketing, including SEO. As a result, the EC business recorded revenue of 620 million yen (up 27.1% year on year), segment profit before allocation of corporate expenses of 94 million yen (up 45.3% year on year), and segment profit after allocation of corporate expenses of 76 million yen (up 52.9% year on year) for the period under review.

(v) Incubation & Investment Business

The segment covers business investments and businesses related to regional revitalization in collaboration with municipalities implemented by the Company, businesses by J-Phoenix Research Inc., engaged with activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, businesses related to regional revitalization, such as immigration support service from the perspective of the residents. Investments together with the related activities, such as those for value increase of the investee companies and engagement activities are also implemented under an engagement fund named SCSV-1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital LLC.

Under this structure, we will aim at establishing an organization to provide one-stop and seamless services across the Group that cover activities from investment discovery to investment execution, management support for corporate value creation, support for DX promotion and investor relations activities in order to enhance shareholders value, eventually acquiring a competitive edge that can hardly be imitated by rival firms.

Moreover, as a service business related to regional revitalization, we launched a SDGs-focused, Reverse

Solicitation Proposal service, which is a business co-created and developed with Public dots & Company Co., Ltd. Since the launch, several projects have been already started and organic matchings have been realized between a municipality and a private corporation. We are aiming to further develop the business and monetize it as a specific scheme for a municipality to share risk with a big enterprise in nurturing a new business.

Additionally, Scala Partners, Inc., which is currently engaged in the migration support service, is expanding the business to cover not only the people doing workation, but also corporations to solve their issues under the COVID 19 pandemic, such as "nature a talent capable of making a change through resolving a regional issue." These services are provided through operation of *KomfortaWorkation*, a facility introduction website intended to meet workation related needs. We are also actively trying to establish relationship with other companies to co-create a new thing, such as through collaboration with Adecco Co., Ltd. and Mirai Works Inc., proposing "a new working style that is not constrained by where to work," as well as developing a service under collaboration with Class Japan Gakuen Co., Ltd., which enables children under compulsory education to learn at any place by utilizing online classes. We will aim at further growing by rolling out the services that will orient people toward "a new lifestyle," "a new work style" and "a new learning style."

During the period under review, SCSV-1 Investment Limited Partnership subscribed to a third party allocation of shares of ARCHITECTS STUDIO JAPAN INC., and entered business partnership with the company, while working on enhancing their corporate value, primarily through providing support services for their investors relation activity and promotion of DX.

As mentioned above, we are aggressively operating and developing new businesses with a potential of generating substantial revenue in the future. However, revenue increase through these businesses is set as a medium-term goal. As a result, the segment revenue was 36 million yen with segment loss before allocation of corporate expenses of 59 million yen (compared with segment loss of 30 million yen a year earlier) and segment loss after allocation of corporate expenses of 128 million yen (compared with segment loss of 170 million yen a year earlier), due primarily to increased upfront investment costs, such as development costs, personnel expenses and other expenses for the sake of future growth.

In terms of the non-GAAP measures adjusted for expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary (consisting of financial advisory fees and legal fees), segment loss before allocation of corporate expenses was 44 million yen (compared with segment profit of 50 million yen a year earlier) and segment loss after allocation of corporate expenses was 113 million yen (compared with segment loss of 89 million yen a year earlier).

(2) Explanation of Financial Position

Assets

Total assets amounted to 24,626 million yen at the end of the period under review, a decrease of 286 million yen over the end of the previous fiscal year. This was mainly due to an increase of 13 million yen arising from reclassification of the assets related to SOFTBRAIN Co., Ltd. and its subsidiaries (hereinafter collectively "SOFTBRAIN") to assets held for sale resulting from reclassification of the businesses operated by SOFTBRAIN as a discontinued operation, which was more than offset by a decrease of 4,455 million yen in cash and cash equivalents, a decrease of 2,002 million yen in trade and other receivables, and a decrease of 5,136 million yen in goodwill, all of which also arose from the reclassification of SOFTBRAIN as a discontinued operation.

Liabilities

Liabilities totaled 14,295 million yen, a decrease of 274 million yen over the end of the previous fiscal year. This was mainly due to an increase of 2,967 million yen arising from classification of the liabilities related to SOFTBRAIN as liabilities held for sale resulting from reclassification of the businesses operated by SOFTBRAIN as a discontinued operation, which was more than offset by a decrease of 1,594 million yen in trade and other payables, a decrease of 379 million yen in bonds and borrowings under non-current liabilities, and a decrease of 175 million yen in lease liabilities under current liabilities, and a decrease of 765 million yen in lease liabilities under non-current liabilities, all of which also arose from the reclassification of SOFTBRAIN as a discontinued operation.

Equity

Equity totaled 10,331 million yen, a decrease of 12 million yen over the end of the previous fiscal year. This was mainly due to an increase of 21 million yen in share capital through the issuance of new shares for restricted stock compensation and the exercise of share acquisition rights, etc., profit attributable to owners of parent of 137 million yen, profit attributable to non-controlling interests of 120 million yen, and a decrease of 245 million yen in retained earnings due to dividend payments.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

The Group maintains its consolidated forecast for the fiscal year ending June 30, 2021 that was announced on November 16, 2020.

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousands of yen)

	FY6/20 (As of Jun. 30, 2020)	Second quarter of FY6/21 (As of Dec. 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	7,822,725	3,367,579
Trade and other receivables	3,456,765	1,454,431
Inventories	200,857	190,541
Other current assets	300,469	232,045
Assets held for sale	-	13,705,526
Total current assets	11,780,818	18,950,124
Non-current assets		
Property, plant and equipment	706,048	487,132
Right-of-use assets	2,774,055	1,881,461
Goodwill	7,086,427	1,949,745
Intangible assets	1,242,517	167,774
Securities related to investment business	-	82,709
Other financial assets	1,149,298	959,590
Deferred tax assets	162,314	143,135
Other non-current assets	11,442	5,130
Total non-current assets	13,132,103	5,676,681
Total assets	24,912,921	24,626,805

(Thousands of yen)

	FY6/20 (As of Jun. 30, 2020)	Second quarter of FY6/21 (As of Dec. 31, 2020)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	2,319,295	724,791
Bonds and borrowings	4,798,660	4,820,887
Lease liabilities	526,892	350,897
Income taxes payable	101,543	15,135
Other current liabilities	421,882	272,693
Liabilities directly associated with assets held for sale	-	2,967,373
Total current liabilities	8,168,274	9,151,779
Non-current liabilities		
Bonds and borrowings	3,833,691	3,454,380
Lease liabilities	2,372,223	1,606,704
Deferred tax liabilities	60,926	6,774
Other non-current liabilities	134,635	76,012
Total non-current liabilities	6,401,476	5,143,870
Total liabilities	14,569,751	14,295,649
Equity		
Equity attributable to owners of parent		
Share capital	1,721,239	1,743,104
Capital surplus	902,874	910,868
Retained earnings	4,634,951	4,527,778
Treasury shares	(9)	(9)
Other components of equity	143,932	127,098
Total equity attributable to owners of parent	7,402,989	7,308,842
Non-controlling interests	2,940,181	3,022,313
Total equity	10,343,170	10,331,156
Total liabilities and equity	24,912,921	24,626,805

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

Condensed Quarterly Consolidated Statement of Income

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Continuing operations		
Revenue	3,646,853	4,285,803
Cost of sales	(2,293,166)	(2,543,477)
Gross profit	1,353,686	1,742,326
Selling, general and administrative expenses	(1,145,973)	(1,776,367)
Other income	1,869	105,959
Other expenses	(0)	(30,106)
Operating profit (loss) before gains/losses on securities related to investment business	209,581	41,810
Gains/losses on securities related to investment business	-	(16,260)
Operating profit	209,581	25,550
Finance income	5,281	8,481
Finance costs	(17,048)	(26,570)
Profit before tax	197,815	7,461
Income tax expense	(99,504)	(27,232)
Profit (loss) from continuing operations	98,310	(19,770)
Discontinued operations		
Profit from discontinued operations	375,194	278,691
Profit	473,504	258,920
Profit attributable to		
Owners of parent	255,252	137,964
Non-controlling interests	218,252	120,956
Profit	473,504	258,920
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	4.84	(1.35)
Discontinued operations	9.92	9.22
Diluted earnings (loss) per share (Yen)		
Continuing operations	4.77	(1.35)
Discontinued operations	9.79	9.14

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Profit	473,504	258,920
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	49,655	(15,824)
Total other comprehensive income, net of tax	49,655	(15,824)
Comprehensive income	523,159	243,096
Comprehensive income attributable to		
Owners of parent	305,064	121,315
Non-controlling interests	218,094	121,781
Comprehensive income	523,159	243,096

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First six months of FY6/20 (Jul. 1, 2019 – Dec. 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, 2019	1,607,988	556,277	4,762,540	(9)	83,796	7,010,593
Profit	-	-	255,252	-	-	255,252
Total other comprehensive income	-	-	-	-	49,812	49,812
Comprehensive income	-	-	255,252	-	49,812	305,064
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	-	8,500	-	-	-	8,500
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(203,659)	-	-	(203,659)
Issuance of new shares	17,000	222,364	-	-	-	239,364
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	-	25	-	-	-	25
Total transactions with owners	112,513	326,404	(203,659)	-	(1,353)	233,903
Balance as of Dec. 31, 2019	1,720,501	882,681	4,814,132	(9)	132,255	7,549,561

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2019	2,597,677	9,608,270
Profit	218,252	473,504
Total other comprehensive income	(157)	49,655
Comprehensive income	218,094	523,159
Increase (decrease) by business combination	-	-
Share-based remuneration transactions	-	8,500
Share-based remuneration transactions of subsidiaries	(1,958)	(1,958)
Dividends	-	(203,659)
Issuance of new shares	-	239,364
Issuance of share acquisition rights	-	629
Exercise of share acquisition rights	-	189,043
Acquisition and disposal of non-controlling interests	(600)	(574)
Total transactions with owners	(2,558)	231,344
Balance as of Dec. 31, 2019	2,813,213	10,362,774

First six months of FY6/21 (Jul. 1, 2020 – Dec. 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, 2020	1,721,239	902,874	4,634,951	(9)	143,932	7,402,989
Profit	-	-	137,964	-	-	137,964
Total other comprehensive income	-	-	-	-	(16,649)	(16,649)
Comprehensive income	-	-	137,964	-	(16,649)	121,315
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	15,147	926	-	-	-	16,073
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(245,137)	-	-	(245,137)
Exercise of share acquisition rights	6,718	6,718	-	-	(184)	13,252
Acquisition and disposal of non-controlling interests	-	348	-	-	-	348
Total transactions with owners	21,865	7,994	(245,137)	-	(184)	(215,462)
Balance as of Dec. 31, 2020	1,743,104	910,868	4,527,778	(9)	127,098	7,308,842

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2020	2,940,181	10,343,170
Profit	120,956	258,920
Total other comprehensive income	825	(15,824)
Comprehensive income	121,781	243,096
Increase (decrease) by business combination	4,900	4,900
Share-based remuneration transactions	-	16,073
Share-based remuneration transactions of subsidiaries	(46,011)	(46,011)
Dividends	-	(245,137)
Exercise of share acquisition rights	-	13,252
Acquisition and disposal of non-controlling interests	1,462	1,811
Total transactions with owners	(39,648)	(255,111)
Balance as of Dec. 31, 2020	3,022,313	10,331,156

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Cash flows from operating activities		
Profit before tax	197,815	7,461
Profit (loss) before tax from discontinued operations	536,904	398,522
Depreciation and amortization	425,173	546,444
Loss (gain) on sale of non-current assets	1,679	29,592
Gains (losses) on securities related to investment business	-	16,260
Finance income	(5,579)	(8,748)
Finance costs	17,649	27,616
Decrease (increase) in trade and other receivables	(17,766)	184,043
Increase (decrease) in trade and other payables	(141,901)	10,367
Decrease (increase) in inventories	(21,296)	(39,289)
Other	(33,890)	(219,909)
Subtotal	958,786	952,361
Interest and dividends received	5,477	8,736
Interest paid	(14,845)	(26,597)
Income taxes refund (paid)	(387,677)	(158,922)
Net cash provided by (used in) operating activities	561,741	775,578
Cash flows from investing activities		
Purchase of property, plant and equipment	(188,347)	(44,282)
Purchase of intangible assets	(236,845)	(450,112)
Purchase of investment securities	(42,420)	(109,086)
Proceeds from sale of investment securities	-	9,353
Payments for loans receivable	(500,460)	(460)
Collection of loans receivable	-	4,137
Payments of leasehold and guarantee deposits	(241,512)	(32,988)
Proceeds from refund of leasehold and guarantee deposits	8,490	21,571
Payments for acquisition of subsidiaries	-	(70,000)
Purchase of investments accounted for using equity method	-	(18,915)
Other	214	(548)
Net cash provided by (used in) investing activities	(1,200,880)	(691,332)

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,423,333	(165,856)
Proceeds from long-term borrowings	1,062,000	554,492
Repayments of long-term borrowings	(753,174)	(845,607)
Redemption of bonds	(220,000)	(200,000)
Proceeds from issuance of bonds	-	350,000
Repayments of lease liabilities	(98,435)	(284,188)
Proceeds from exercise of share acquisition rights	189,043	48,446
Proceeds from issuance of share acquisition rights	629	-
Dividends paid	(204,298)	(245,006)
Dividends paid to non-controlling interests	-	(659)
Other	(1,060)	(8,565)
Net cash provided by (used in) financing activities	1,398,036	(796,946)
Effect of exchange rate changes on cash and cash equivalents	(169)	(2,118)
Net increase (decrease) in cash and cash equivalents	758,728	(714,818)
Cash and cash equivalents at beginning of period	6,393,530	7,822,725
Increase in cash and cash equivalents by share exchanges	11,677	-
Cash and cash equivalents included in assets held for sale	-	(3,740,328)
Cash and cash equivalents at end of period	7,163,936	3,367,579

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table.
Cash flows from discontinued operations are described in Note (Discontinued Operations).

(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 consolidated financial statements for the six months ended December 31, 2020 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group mainly provides SaaS/ASP services supporting communications between corporations and individuals through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business.

For more information, please refer to "Segment Information, (1) Overview of reportable segments in Notes to Condensed Quarterly Consolidated Financial Statements. As the tender offer for SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary, was complete, the businesses operated by SOFTBRAIN Co., Ltd. has been reclassified as a discontinued operation. For more information, please refer to "Discontinued Operations" in Notes to Condensed Quarterly Consolidated Financial Statements.

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 February 15, 2021.

(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

Profit or loss from businesses reclassified as a discontinued operation is presented on the condensed quarterly consolidated statement of income as the amount, net of income tax expense, below "Profit from continuing operations." For businesses reclassified as a discontinued operation, partial reclassifications were made on the condensed quarterly consolidated statement of income for the first half and the second quarter of the previous fiscal year, the condensed quarterly consolidated statement of cash flows for the first half of the previous fiscal year, and relevant notes to condensed quarterly consolidated financial statements.

Cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities for the condensed quarterly consolidated statement of cash flows are presented as the totals of cash flows arising from both continuing operations and discontinued operations.

3. Significant 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 for 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.

Discontinued Operations

The Group recognizes as a discontinued operation a component of an entity that either has been disposed of, or is classified as held for sale, and

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The post-tax gain or loss recognized on the disposal of the disposal groups constituting the discontinued operation is presented as "Profit (loss) from discontinued operations" separately from continuing operations in the condensed quarterly consolidated statement of income with the disclosures for the prior period being restated accordingly.

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.

During the second quarter, Scala succeeded in its tender offer for its consolidated subsidiary SOFTBRAIN Co., Ltd. As a result, the businesses operated by SOFTBRAIN Co., Ltd. and its subsidiaries, which were included in SFA Business and Field Marketing Business, have been reclassified as a discontinued operation and excluded from the segment information for the first half of the previous and current fiscal years.

The Group changed its reportable segment structure from the four segments consisting of SaaS/ASP Business, SFA Business, Field Marketing Business, and Customer Support Business to the five segments consisting of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through AI, IT, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, and redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan.
- 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.
- The HR & Education Business offers recruitment support specialized for athletic students, support for childcare facilities, sports education for children, and foreign personnel placement in the nursing care field.
- The EC Business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages.
- The Incubation & Investment Business provides support for new business development working with private companies in corporation with governments and municipalities, and offers regional revitalization services through projects such as ones promoting relocations to rural areas. In addition, the Incubation & Investment Business makes investment on businesses and investment through associations or other organizations, while continuing value increase and engagement activities on such investment.

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

First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019) (Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 4)
	IT/AI/IoT/DX Business	Customer Support Business	EC Business	Incubation & Investment Business	Subtotal		
Revenue							
Sales to external customers	2,051,569	1,103,862	488,509	2,912	3,646,853	-	3,646,853
Inter-segment sales and transfers	2,518	14,919	-	-	17,437	(17,437)	-
Total	2,054,087	1,118,781	488,509	2,912	3,664,291	(17,437)	3,646,853
Segment profit (loss)	421,711	11,997	50,247	(170,997)	312,959	(103,378)	209,581
Finance income							5,281
Finance costs							(17,048)
Profit before tax							197,815

Notes: 1. The (103,378) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 1,622 thousand yen and corporate expenses allocated to discontinued operations of (105,000) thousand yen, categorized as a discontinued operation.

2. From the second quarter, the Group has changed the method for allocating corporate expenses to assess each segment performance more appropriately. The figures of the first six months of the previous fiscal year are presented as the amount that reflects this change.

3. In connection with the classification of the SFA Business and the Field Marketing Business as discontinued

operations, the amounts in the segment information by business category is presented as the amounts reclassified to reflect continuing operations, which excludes the amounts from discontinued operations. For more information about discontinued operations, please refer to "Discontinued Operations" in Notes to Condensed Quarterly Consolidated Financial Statements.
4. Segment profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
5. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020) (Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 4)
	IT/AI/IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Incubation & Investment Business	Subtotal		
Revenue								
Sales to external customers	1,933,267	1,038,053	657,170	620,953	36,357	4,285,803	-	4,285,803
Inter-segment sales and transfers	12,699	25,924	5,240	-	-	43,865	(43,865)	-
Total	1,945,967	1,063,978	662,411	620,953	36,357	4,329,669	(43,865)	4,285,803
Segment profit (loss)	305,592	4,672	(131,839)	76,833	(128,138)	127,120	(101,570)	25,550
Finance income								8,481
Finance costs								(26,570)
Profit before tax								7,461

Notes: 1. The (101,570) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 3,430 thousand yen and corporate expenses allocated to discontinued operations of (105,000) thousand yen, categorized as a discontinued operation.
2. Corporate expenses are allocated to each reportable segment based on a rational basis.
3. In connection with the classification of the SFA Business and the Field Marketing Business as discontinued operations, the amounts in the segment information by business category is presented as the amounts reclassified to reflect continuing operations, which excludes the amounts from discontinued operations. For more information about discontinued operations, please refer to "Discontinued Operations" in the Notes to Condensed Quarterly Consolidated Financial Statements.
4. Segment profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
5. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Discontinued Operations

During the period under review, Scala succeeded in its tender offer for its consolidated subsidiary SOFTBRAIN Co., Ltd. As a result, the profit and loss and cash flows related to the businesses operated by SOFTBRAIN Co., Ltd. and its subsidiaries for the first half of the current fiscal year are classified as discontinued operations. In addition, those figures for the first half of the previous fiscal year are re-presented as discontinued operations.

(1) Discontinued operations performance

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Profit or loss from discontinued operations		
Revenue	4,962,683	4,779,246
Expense	(4,425,778)	(4,380,724)
Profit before tax from discontinued operations	536,904	398,522
Income tax expense	(161,710)	(119,830)
Profit from discontinued operations	375,194	278,691

(2) Cash flows from discontinued operations

(Thousands of yen)

	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Cash flows from discontinued operations		
Cash flows from operating activities	482,058	552,001
Cash flows from investing activities	(361,983)	(409,815)
Cash flows from financing activities	(102,675)	(162,339)
Effect of exchange rate changes on cash and cash equivalents	515	(1,206)
Total	17,914	(21,360)

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.