August 15, 2022

Consolidated Financial Results for the Fiscal Year Ended June 30, 2022 [IFRS]

Company name: Scala, Inc. Listing: Tokyo Stock Exchange
Stock code: 4845 URL: https://scalagrp.jp/
Representative: Norikatsu Nagino, Director, Representative Executive Officer & President
Contact: Daisuke Jodai, General Manager of Accounting Department
Tel: +81-(0)3-6418-3960

Scheduled date of Annual General Meeting of Shareholders: September 26, 2022
Scheduled date of filing of Annual Securities Report: September 26, 2022
Scheduled date of payment of dividend: September 27, 2022
Preparation of supplementary materials for financial results: Yes
Holding of 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

(1) Consolidated Results of Operations (July 1, 2021 to June 30, 2022) (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	%
Fiscal year ended Jun. 30, 2022	10,015	15.0	(393)	–	(411)	–	(526)	–	(523)	–
Fiscal year ended Jun. 30, 2021	8,712	–	413	–	381	–	3,225	428.8	3,065	854.4

	Basic earnings per share	Diluted earnings per share	Ratio of equity attributable to owners of parent to profit	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
Fiscal year ended Jun. 30, 2022	(29.66)	(29.66)	(5.5)	(2.0)	(3.9)
Fiscal year ended Jun. 30, 2021	174.62	173.15	34.9	1.7	4.7

Reference: Share of profit (loss) of investments accounted for using equity method (million yen)
Fiscal year ended Jun. 30, 2022: (1) Fiscal year ended Jun. 30, 2021: (0)

Note: In the second quarter of the fiscal year ended June 30, 2021, the businesses that Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries operated were classified as a discontinued operation. The transfer of all shares of SOFTBRAIN held by Scala was complete in the third quarter of the same fiscal year.

On June 30, 2022, Scala's consolidated subsidiary Scala Works, Inc. was classified as a discontinued operation following the resolution on its dissolution and liquidation

Accordingly, revenue, operating profit, and profit before tax for the fiscal years ended June 30, 2021 and June 30, 2022 present the reclassified amounts of those from continuing operations excluding those from the discontinued operations. Because of this, the year-on-year changes for the fiscal year ended June 30, 2021 are not presented.

For details of the discontinued operations, please refer to "3. Consolidated Financial Statements and Notes, (5) Notes to 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. Overview of Results of Operations, (1) Results of Operations" on page 2 of Attachments.

(1) Consolidated Results of Operations (July 1, 2021 to June 31, 2022) (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	%
Fiscal year ended Jun. 30, 2022	10,015	15.0	99	(78.9)	81	(81.6)	41	(89.3)	44	(88.5)
Fiscal year ended Jun. 30, 2021	8,712	–	471	–	440	–	383	–	387	–

	Basic earnings per share	Diluted earnings per share	Ratio of operating profit to revenue
	Yen	Yen	%
Fiscal year ended Jun. 30, 2022	2.49	2.48	1.0
Fiscal year ended Jun. 30, 2021	22.05	21.86	5.4

Notes: 1. For adjustment, profit or loss on securities related to investment business was deducted from the line items below operating profit, and profit from discontinued operations was deducted from the line items below profit.

2. In addition to the above Note 1, 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 the relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) of 61 million yen were deducted from the line items below operating profit for the fiscal year ended June 30, 2021.

3. In addition to the above Note 1, expenses incurred on M&A and the relocation of the head office of Scala's subsidiary, impairment loss on goodwill, etc. of 424 million yen were deducted from the line items below operating profit for the fiscal year ended June 30, 2022.

3. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total		
	Yen	Yen	Yen	Yen	Yen	Million yen	%
Fiscal year ended Jun. 30, 2021	–	16.00	–	18.00	34.00	597	19.5
Fiscal year ended Jun. 30, 2022	–	18.00	–	18.00	36.00	632	–
Fiscal year ending Jun. 30, 2023 (forecasts)	–	18.50	–	18.50	37.00	646	–

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2023 under IFRS

(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
First half	6,500	52.6	400	–	385	–	270	–	255	–	15.31
Full year	13,000	29.8	1,000	–	970	–	680	–	650	–	38.56

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 Jun. 30, 2022	20,816	9,006	8,687	41.7	497.29
As of Jun. 30, 2021	20,330	10,470	10,162	50.0	577.51

6. Consolidated Cash Flows under IFRS

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Jun. 30, 2022	2,048	(1,893)	(339)	9,625
Fiscal year ended Jun. 30, 2021	720	4,429	(3,160)	9,809

*** Notes**

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

Newly added: 1 (Nihon Pet Small-amount Short-term Insurance Company)

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 issued (common shares)

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

As of Jun. 30, 2022:	17,698,259 shares	As of Jun. 30, 2021:	17,597,459 shares

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

As of Jun. 30, 2022:	228,608 shares	As of Jun. 30, 2021:	8 shares

3) Average number of shares outstanding during the period

Fiscal year ended Jun. 30, 2022:	17,636,193 shares	Fiscal year ended Jun. 30, 2021:	17,553,348 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2022 (July 1, 2021 to June 30, 2022)

(1) Non-consolidated Results of Operations (Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Jun. 30, 2022	866	(28.0)	(604)	–	(599)	–	(1,264)	–
Fiscal year ended Jun. 30, 2021	1,202	7.9	254	1.7	261	(30.9)	5,827	–

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended Jun. 30, 2022	(71.67)	–
Fiscal year ended Jun. 30, 2021	332.00	329.21

Note: Diluted earnings per share for the fiscal year ended June 30, 2022 is not presented because net loss per share was reported despite the existence of potential shares.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Jun. 30, 2022	14,650	7,244	49.4	414.62
As of Jun. 30, 2021	15,874	9,413	59.3	534.75

Reference: Equity (Shareholders' equity + Valuation and translation adjustments) (million yen)
As of Jun. 30, 2022: 7,243 As of Jun. 30, 2021: 9,410

Reason for difference from previous year's non-consolidated financial results
For the non-consolidated financial results, there was a decrease in revenue due to a change in the method for allocating corporate expenses of the affiliates, and there was a decrease in operating profit due primarily to increased upfront investment costs such as development costs and personnel expenses for future growth.
In addition, there was a decrease in profit as a result of recording loss on valuation of shares of subsidiaries and associates, and provision of allowance for doubtful accounts for subsidiaries and associates as extraordinary losses. These factors explain the difference between the financial results for the fiscal year ended June 30, 2021 and those for the fiscal year ended June 30, 2022.

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

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

Cautionary statement with respect to forecasts

Forecasts 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.

Please refer to "1. Overview of Results of Operations, (4) Outlook" on page 8 of Attachments for forecast assumptions and notes of caution for usage.

How to view supplementary materials for financial results

Supplementary materials for the financial results will be disclosed today (August 15, 2022) and available on the Company's website.

Contents of Attachments

1. Overview of Results of Operations

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.

During the fiscal year ended June 30, 2022 ("the current fiscal year"), significant changes in the business conducted by the Scala Group (Scala, Inc. and its affiliates) from that described in the Annual Securities Report for the previous fiscal year are as follows.

The Group has added the Insurance Business to the reportable segments as we have acquired Nihon Pet Small-amount Short-term Insurance Company to make it a consolidated subsidiary. As a result, the reportable segments consist of the following six businesses: IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business from the current fiscal year.

In addition, to divest an unprofitable business, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work's business as a discontinued operation from the current fiscal year. Accordingly, revenue, operating profit, and profit before tax present the amounts of those from continuing operations excluding those from discontinued operations. The figures for the previous fiscal year are also reclassified in the same manner.

(1) Results of Operations

1) Results of operations under IFRS

The Japanese economy for the current fiscal year saw some signs of the normalization of economic activities driven by the resumption of investments against a backdrop of a modest economic recovery and the increased vaccination uptake. However, it is still hard to predict when the pandemic will be over due to the rapid expansion of the infection caused by new variants. In addition, due to the impacts of Ukraine situation at home and abroad since late February, the worldwide shortage of semiconductors, the rise in energy and other prices around the world, the economic outlook in Japan remained uncertain.

In such business environment, the Group has worked to create and expand new services and enhance the existing businesses in the form of "co-creation" with the domestic private companies and local governments in order to develop into a "value co-creation company solving social problems with clients through business" as stated in the Mid-term Management Plan announced in August 2019. At the same time, the Group proactively explored M&A opportunities.

As a result, the Group reported revenue of 10,015 million yen (up 15.0% year on year) for the current fiscal year. This increase was due to an increase in revenue from the IT/AI/IoT/DX Business and the addition of the Insurance Business to the Group both through M&A, and continued steady growth in the EC Business, though partially offset by the significant decline in revenue from the Customer Support Business.

On the profitability front, the Group reported operating loss of 393 million yen (compared with operating profit of 413 million yen for the previous fiscal year). This is mainly attributable to a temporary decrease in profit caused by continued aggressive investment for the development of co-creation projects that lead to new businesses in the IT/AI/IoT/DX Business; an increase in upfront investment costs including various advisory fees in the Incubation & Investment Business, and development costs and personnel expenses for future growth; and the recording of loss on securities related to investment business; partially offset by a significant increase in profit of the EC Business. In addition, the IT/AI/IoT/DX Business and the HR & Education Business recorded an impairment loss on goodwill of 357 million yen as a result of the revaluation of certain subsidiaries because their growth turned out to be slower than the initial business plan. The Group reported loss before tax of 411 million yen (compared with profit before tax of 381 million yen for the precious fiscal year) despite a decrease in interest expenses resulting from a decrease in the average outstanding borrowings during the period. Consequently, the

Group reported loss of 526 million yen (compared with profit of 3,225 million yen for the previous fiscal year) and loss attributable to owners of parent of 523 million yen (compared with profit of 3,065 million yen for the previous fiscal year) due to the recording of loss from discontinued operations of 152 million yen.

2) Results of operations 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 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 adjustment, profit or loss on securities related to investment business were deducted from the operating profit and the items below it, and profit from discontinued operations was deducted from profit and items below it.

For the previous fiscal year, in addition to the deduction above, 61 million yen was deducted to derive the non-GAAP measures 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.).

For the current fiscal year, in addition to the deduction above, 424 million yen was deducted to derive the non-GAAP measures for expenses resulting from M&A, expenses incurred on relocation of the head office of Scala's subsidiary, impairment loss on goodwill, etc.

Business segment performance was as follows.

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

(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc., Scala Next, Inc., and EGG CO., LTD., the Company's new subsidiary, as main players, are working on the following: the planning and development of new services as well as proposal, introduction support, provision, and improvement of the existing SaaS/ASP services for promoting DX for major companies, local governments, the government, and public sectors.

As one of the major projects, we released the "Trust DX" to REaaS Technologies Co., Ltd., a real estate tech subsidiary of Shinoken Group Co., Ltd. The Trust DX is a hybrid platform for electronic contracts for real estate transactions that enables users to select the method of signing a contract either by the contract parties or by the service provider. In electronic contracts of real estate transactions, it is the first in the industry to use the digital ID app (xID) linked to My Number Card to complete personal authentication.

In addition, as a co-creation project, we have started working jointly with major pharmaceutical companies and non-life insurance companies to build a smart healthcare platform. The first step for this project has already taken—we are working on an ongoing development of healthcare services to support companies' Health and Productivity Management. The statuses of our other ongoing projects are as follows: for "U-medical support" implemented as livestock DX, a function related to remote diagnosis is to be developed for further advancement; and for "EG-Genome," an application for using the data of dairy cattle genome test results, the development of this app is in full swing and will soon enter the final phase for its release.

What is more, EGG CO. LTD., which we acquired during the current fiscal year, has shown strong performance in receiving orders from local governments for the development, provision, and BPO operations of the *furusato nozei* system, or the taxation system in which taxpayers can choose to divert part of their residential tax to a specified local government. Moreover, jointly with Motomiya City, Fukushima Prefecture, we have started demonstration experiments on assessing the frailty (*) level of the elderly using the frailty early detection system, awareness-raising version of "ASTER II" provided for local governments. For a longer healthy life span and preventive nursing care for the elderly, a key focus is taking preventative measures against frailty by identifying local residents' frailty levels in numerical figures, which is also promoted by the Ministry of Health, Labour, and Welfare in the integrated initiative of health businesses and preventive care. What is necessary is to measure individual elderly's frailty levels and understand the frailty trend in the entire region, and then take appropriate approaches. To do so, first of all, we have proposed to quantify the frailty statuses of the local residents using ASTER II awareness-raising version to grasp the frailty statuses in each local government or region. We have been considering providing the frailty early detection system for dozens of other local governments.

*Frailty: This is the concept introduced by The Japan Geriatrics Society. The status of frailty indicates a physical condition between a healthy condition and a care-requiring condition and with a decline in physical function or cognitive function. A frailty condition can be prevented by an appropriate treatment and preventative measures from getting worse to a care-requiring condition.

Meanwhile, Connect Agency, Inc. has been expanding the lineup of soft phone services and working on retention of the existing customers. There is an increase in new inquiries primarily about the call center solutions with voice recognition, which has been added to its lineup. The proposal activities are ongoing for seven companies.

As a result of the above, the segment revenue was 4,875 million yen (up 17.6% year on year). On the profitability front, segment profit was 831 million yen (down 20.2%) before allocation of corporate expenses, and 236 million yen (down 68.8%) after allocation of corporate expenses, due to the recording of an impairment loss on goodwill of 252 million yen.

Under the non-GAAP measures adjusted for the impairment loss on goodwill, segment profit before allocation of corporate expenses was 1,084 million yen (up 4.0% year on year), and segment profit after allocation of corporate expenses was 488 million yen (down 35.4%).

(ii) Customer Support Business

This business segment has seen an increase in call-center needs that had been continuously shrinking due to the spread of the COVID-19 infection. Currently, we have received multiple new inquiries about call center projects, and there is an ongoing process of winding a project that will start its operation in the year ending June 2023. We will continuously strive to acquire new projects and, at the same time, raise profit margins by lowering costs through transfer of projects to the call center in Okinawa in operation, primarily by streamlining BPO operations using RPA.

As a result of the above, the business recorded segment revenue of 1,357 million yen (down 26.1% year on year), segment loss before allocation of corporate expenses of 28 million yen (compared with segment profit of 32 million yen for the previous fiscal year), and segment loss after allocation of corporate expenses of 31 million yen (compared with segment loss of 12 million yen for the previous fiscal year).

(iii) HR & Education Business

This business mainly consists of the following services: (1) recruitment support services for new graduates, specialized for athletic students and female students, as well as for the planning and operation of related events such as joint information sessions and career seminars; (2) childcare and educational services such as *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 Largo KIDS; and (3) sports school for children, the planning and management of sports events, and online sports education services.

The growth opportunities for the recruitment support service for new graduates is stable since the job openings-to-applicants ratio for university graduates in 2022 was almost unchanged from the previous year even with the coronavirus and the willingness to hire is recovering, especially among large companies. Given these circumstances, we have focused on strengthening our support system and providing services for newly graduated students. We also actively held events such as joint job fairs for companies that are looking ahead to a post-COVID-19 world and vigorously moving toward recruiting activities for students who will graduate from university in 2023.

In the childcare and educational services, the Group focused on securing children for the UK Academy for school children and promoted measures including holding events and others to ensure that parents and young children can also enjoy at nursery schools and others even amid the COVID-19 pandemic. We also promoted business development in the Kingdom of Thailand.

In the sports education services, in addition to the continued operation of various sports schools, the Group has promoted the operations of a professional basketball team, THE SAITAMA BRONCOS, and the consideration of businesses related to sports and public administration in collaboration with the national or local governments.

As a result, the business recorded segment revenue of 1,468 million yen (up 10.2% year on year). On the profitability front, segment profit before allocation of corporate expenses was 112 million yen (down 20.6%), and segment profit after allocation of corporate expenses was 61 million yen (up 472.4%), due to the recording of an impairment loss on goodwill of 105 million yen.

Under the non-GAAP measures adjusted for subsidiary office relocation expenses and an impairment loss on goodwill, segment profit before allocation of corporate expenses was 227 million yen (up 31.6% year on year), and segment profit after allocation of corporate expenses was 176 million yen (up 317.3% year on year).

(iv) EC Business

The EC business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages. Under the circumstances where online trading needs have been expanding amid the COVID-19 pandemic, efforts for digital marketing including SEO worked successfully, and both revenue and profit remained strong at a level much higher than the previous fiscal year. In addition, the iOS app released at the end of the previous fiscal year has steadily been acquiring more users, and development of an Android app is underway. Moreover, to deliver pleasant shopping and purchasing experiences, we have completed switching the current server to a public cloud server for much faster website display and processing, and we are also developing a password-less login solution equipped with robust security features. Introducing this solution improves user interface and user experience (UI/UX) by significantly decreasing the needs for reissuance of a password due to, for example, a case where the user forgets the password. We will continue to actively consider introducing cutting-edge technologies to design and provide comfortable UI/UX.

As a result of the above, the EC business recorded revenue of 1,654 million yen (up 26.1% year on year), segment profit before allocation of corporate expenses of 281 million yen (up 40.4%), and segment profit after allocation of corporate expenses of 239 million yen (up 47.0%).

(v) Insurance Business

On April 26, 2022, Scala made Nihon Pet Small-amount Short-term Insurance Company (NPSSI) a wholly owned subsidiary and included NPSSI in the scope of consolidation as of the date. This business mainly operates the pet insurance “Insurance for Dogs and Cats” developed by NPSSI.

Pet-related industries including pet insurance have been expected to grow rapidly in response to an increase in the stay-at-home demand and continued remote working due to the influence of COVID-19 infection. With distinctive designs of insurance products, the number of insurance contracts has steadily increased along with an increase in the insurance profit. On the other hand, the claims paid have continued to rise due to an increase in the number of visits for diagnosis and treatment, higher medical expenses and other reasons. To address this issue, we will strive to acquire more insurance contracts and streamline the operations to reduce the costs.

As a result of the above, the business recorded revenue of 452 million yen and segment loss of 28 million yen.

(vi) Incubation & Investment Business

The segment covers business investments by the Company, development and promotion of services under a new form of public-private co-creation collaboration between local governments and private companies, which is promoted by SOCIALX, INC., and businesses by J-Phoenix Research Inc., which engaged in activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, and promotes the work-style reform of companies and regional revitalization through workation. Investments together with the related activities, such as those for value increase of the investee companies, 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.

SOCIALX, INC. is creating new businesses for addressing social problems in public-private co-creation through a variety of Gyaku Propo services. At the same time, at ARCH (an incubation center operated by Mori Building Co., Ltd.), where two representatives of SOCIALX serve as mentors for the new business development divisions of more than 100 companies, they promote co-creation by leveraging knowledge and insights about public-private co-creation and the network with local governments. In addition, entrusted as the secretariat of Project for Business Adoption/Startup in Coexistence with Local Communities in 2022, which was publicly offered by the Ministry of Economy, Trade and Industry, SOCIALX is going to support 19 projects for addressing social problems together with a team of 10 experienced consultants with diverse backgrounds who agree with the philosophy of SOCIALX.

For further development of Gyaku Propo, SOCIALX have newly released the following three services: “Gyaku Propo Concierge,” which provides consultation services for local governments having issues on public-private co-creation/civil coordination; “Gyaku Propo Learning,” which provides training and education programs for companies to be able to know the ropes and gain knowledge for developing new businesses to address social problems in public-private co-creation; and “Gyaku Propo Tour,” which combines regional social problems or hidden charms with companies’ strengths on the spot through the open innovation program that connects companies with local governments for creating new business ideas, and quickly leads such ideas to demonstration experiments.

Scala Partners, Inc. is actively building co-creative relationships with partner companies and local governments through the operation of Komforta Workation, a workation facility introduction website. For example, it is proposing “a new working style that is not constrained by where to work” suitable for the post COVID-19 era, establishing Flex Place Workshop and verifying the effect of workation in collaboration with college institutions, and developing experience-based parent-child workation for providing elementary and junior high school students with more learning options.

Furthermore, the Group has signed a comprehensive partnership agreement with Mitsui Sumitomo Insurance Company, Limited to develop insurance products in response to new work styles and promote work style reforms of companies. Under this agreement, we have strengthened our service offerings by actively committing to co-creation with other businesses operators and local governments by providing better support for companies and reducing risks with travelling.

SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, has endeavored to increase the value for the invested companies by, for example, providing IR support and promoting digital transformation including the development of a medium-term business plan. However, the effect on value increase is only temporary under instability in the overall stock market due to worsening world conditions including the COVID-19 pandemic and Ukraine situation.

Moreover, we have focused on business expansion through M&A as one of the growth strategies and continued actively engaging in deal sourcing and due diligence. In addition, by leveraging the accumulated M&A experiences and the know-how on digital transformation in the Group, we have started the “co-creation-oriented M&A advisory business” under the Group’s vision on co-creation, where we serve as an advisor, not a mediator, for M&A. What is more, besides the growth strategies with M&A mentioned above, for companies having problems with conducting M&A due to lack of human resources or know-how, we have organized the “Specially Appointed Task Force for M&A,” an M&A promotion service focusing on practical support, by leveraging and developing our proven track records related to M&A.

As a result, the segment revenue was 206 million yen (up 143.7% year on year) with segment loss before allocation of corporate expenses of 478 million yen (compared with segment loss of 153 million yen for the previous fiscal year) and segment loss after allocation of corporate expenses of 866 million yen (compared with segment loss of 387 million yen for the previous fiscal year), due primarily to increased upfront investment costs, such as various advisory fees in connection with business investments made by the Company, development costs, personnel expenses for future growth; and a drop in stock prices of the listed investee companies of SCSV-1 Investment Limited Partnership. Since these losses were caused by upfront investment costs for development into the next stage for future growth, we regard them as those of a one-off nature.

In terms of the non-GAAP measures adjusted for expenses incurred on M&A and on the subsidiary relocation, segment loss before allocation of corporate expenses was 353 million yen (compared with segment loss of 138 million yen for the previous fiscal year) and segment loss after allocation of corporate expenses was 741 million yen (compared with segment loss of 373 million yen for the previous fiscal year).

(2) Financial Position

Assets

Total assets amounted to 20,816 million yen at the end of the current fiscal year, an increase of 486 million yen over the end of the previous fiscal year. This was mainly due to an increase of 363 million yen in reinsurance assets resulting from making Nihon Pet Small-amount Short-term Insurance Company a subsidiary, an increase of 1,914 million yen in goodwill and intangible assets through M&A, and an increase of 263 million yen in securities related investment business, despite a decrease of 1,325 million yen in cash and cash equivalents resulting from the acquisition of a subsidiary’s shares and a decrease of 476 million yen in goodwill due to the reporting of impairment loss.

Liabilities

Liabilities totaled 11,810 million yen, an increase of 1,951 million yen over the end of the previous fiscal year. This was mainly due to an increase of 644 million yen in insurance contract liability resulting from making Nihon Pet Small-amount Short-term Insurance Company a subsidiary, an increase of 250 million yen in trade and other payables, and an increase of 1,025 million yen in bonds and borrowings under non-current liabilities resulting from procuring funds from financial institutions for M&A and other purposes.

Equity

Equity totaled 9,006 million yen, a decrease of 1,464 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 200 million yen in financial assets measured at fair value through other comprehensive income resulting from a decrease in estimated value, a decrease of 174 million yen resulting from purchase of treasury shares, as well as the recording of 523 million yen in loss attributable to owners of the parent and a decrease of 634 million yen in retained earnings due to dividend payments, despite increases of 28 million yen in share capital and 30 million yen in capital surplus resulting from the issuance of new shares as compensation for restricted stock and the exercise of share acquisition rights.

(3) Cash Flows

Cash and cash equivalents as of the end of the current fiscal year amounted to 9,625 million yen, a net decrease of 184 million yen over the end of the previous fiscal year.

Cash flows and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash provided by operating activities totaled 2,048 million yen (compared with net cash provided of 720 million yen in the previous fiscal year). This was mainly due to loss before tax of 411 million yen, loss before tax from discontinued operations of 136 million yen (compared with profit before tax of 381 million yen and profit before tax from discontinued operation of 2,662 million yen resulting mainly from gain on sale of SOFTBRAIN shares in the previous fiscal year), impairment loss of 476 million yen, as well as depreciation and amortization of 684 million yen (a decrease of 298 million yen year on year, resulting from the exclusion of SOFTBRAIN from the scope of consolidation due to the sale of its shares) and income taxes refund of 1,229 million yen (compared with income taxes paid of 1,746 million yen in the previous fiscal year).

Cash flows from investing activities

Net cash used in investing activities totaled 1,893 million yen (compared with net cash provided of 4,429 million yen in the previous fiscal year). This was mainly due to purchase of shares of subsidiaries resulting in change in scope of consolidation of 1,325 million yen (an increase in cash outflow of 1,260 million yen over the previous fiscal year), purchase of investment securities of 392 million yen (an increase in cash outflow of 159 million yen over the previous fiscal year), and purchase of intangible assets of 60 million yen (a decrease in cash outflow of 572 million yen over the previous fiscal year resulting from exclusion of SOFTBRAIN from the scope of consolidation due to the sale of its shares).

Cash flows from financing activities

Net cash used in financing activities totaled 339 million yen (compared with net cash used of 3,160 million yen in the previous fiscal year). This was mainly due to dividends paid of 633 million yen (an increase in cash outflow of 109 million yen over the previous fiscal year) resulting from increased dividends while there was a net increase of 914 million yen in funds because the amount of new borrowings exceeded that of scheduled repayments due to procurement of funds for M&A or other purposes (compared with a net decrease of 2,137 million yen in funds due to repayments resulting from the sale of the shares of SOFTBRAIN as well as scheduled repayments in the previous fiscal year; total of net increase (decrease) in short-term borrowing, proceeds from long-term borrowing, repayments of long-term borrowings, proceeds from issuance of bonds, and redemption of bonds).

Reference: Cash flow indicators

	FY6/18	FY6/19	FY6/20	FY6/21	FY6/22
Ratio of equity attributable to owners of parent to total assets (%)	39.7	37.5	29.7	50.0	41.7
Market value ratio of equity attributable to owners of parent to total assets (%)	114.3	84.2	47.9	65.4	60.5
Interest-bearing debt to cash flow ratio (years)	3.4	3.1	10.2	11.9	4.5
Interest coverage ratio (times)	83.7	80.7	41.0	15.2	59.7

Ratio of equity attributable to owners of parent to total assets: Equity attributable to owners of parent / Total assets
Market value ratio of equity attributable to owners of parent to total assets: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments

Notes: 1. All indices are calculated based on consolidated figures.
2. Market capitalization is calculated based on the number of outstanding shares excluding treasury shares.
3. Cash flows are based on “Net cash provided by (used in) operating activities.”
4. Interest-bearing debt includes all debt on the consolidated statement of financial position that incur interest.

(4) Outlook

The Group, in the fourth year of the Mid-term Management Plan “COMMIT5000” released in August 2019, aims to become a “value co-creation company solving social problems with clients through business.” Based on three capabilities that have been developed in the Group: (1) Capability to determine real issues, (2) Capability to discover hidden value of resources, and (3) Capability to maximize value by proposing and executing optimal combination of issues and resources, the Group will continue to provide services to companies, governments and municipalities in Japan and overseas and strive to achieve the growth objectives stated in the Plan.

(i) IT/AI/IoT/DX Business

We provide problem solutions through DX using the solutions in the IT/AI/IoT fields we have accumulated as the Group’s strengths.

By identifying potential real problems beyond needs that have already surfaced and proposing optimal solutions necessary for solving such problems, and not just supporting the introduction of individual services, the Group will build a co-creation relationship with customers to lead them to develop new businesses and help them spur innovations in new fields.

We will accelerate DX of local governments by leveraging trust and track records we have built through system development and BPO operations as well as our solid network.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 6,100 million yen (up 25.1% year on year) and segment profit of 900 million yen (up 281.1% year on year).

(ii) Customer Support Business

The Group will continue to expand the scope of business and enhance sales activities centered on the call center in Okinawa, which started operations in November 2021.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 1,450 million yen (up 6.8% year on year) and segment profit of 0 million yen (compared with segment loss of 31 million yen in the current fiscal year).

(iii) HR & Education Business

In addition to the recruitment support for new graduates, specialized for athletic students and female students, we will consider expanding business to mid-career recruitment and personnel training fields.

In the sports education services, we will promote solutions to social problems by enhancing cooperation with local governments, not only producing business synergies with THE SAITAMA BRONCOS.

In the childcare and educational services, in addition to opening of directly operating facilities, the Group will diversify businesses including provision of content for overseas business partners and consignment of facilities operation.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 1,650 million yen (up 12.4% year on year) and segment profit of 180 million yen (up 191.7% year on year).

(iv) EC business

We aim to make Card Shop Yuyu-Tei, a reuse EC site a place that enables us, under the business concept "Curiosity-driven excitement to all users," to deliver compelling trading experiences to TCG users and help them find latest information there. As immediate actions, we are planning to completely revamp the main site, continue investing in digital marketing, conduct research and development on image recognition solutions using a deep learning model and implement such solutions.

In addition, following the iOS app released at the end of the previous fiscal year, we are planning to release an Android app within the fiscal year ending June 30, 2023.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 1,900 million yen (up 14.8% year on year) and segment profit of 270 million yen (up 12.9% year on year).

(v) Insurance Business

Based on the creed "Create a culture that gives pleasure and satisfaction to all pet lovers," we aim to make people and their pets live together happily and transform the current pet industry into an ideal one through the pet insurance business that can contribute to the society.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 1,350 million yen (up 198.4% year on year) and segment loss of 140 million yen (compared with segment loss of 28 million yen in the current fiscal year).

We plan to turn this business into profitability on a single month basis during the fiscal year ending June 30, 2024.

(vi) Incubation & Investment Business

As a series of Gyaku Propo, a public-private co-creation platform, we have launched new services, such as Gyaku Propo Concierge, Gyaku Propo Learning, and Gyaku Propo Tour.
We have also started the "co-creation-oriented M&A advisory business" and the "M&A promotion service focusing on practical support," which are developed by leveraging the Group's proven record of combining DX with M&A.

Based on the above, for the fiscal year ending June 30, 2023, the Group expects to report revenue of 550 million yen (up 166.1% year on year) and segment loss of 210 million yen (compared with segment loss of 866 million yen in the current fiscal year).

Based on the outlook for the segments above, for the first six months for the fiscal year ending June 30, 2023, the Group expects to report revenue of 6,500 million yen with operating profit of 400 million yen, profit before tax of 385 million yen, profit of 270 million yen, and profit attributable to owners of parent of 255 million yen. For the full fiscal year ending June 30, 2023, the Group expects to report revenue of 13,000 million yen with operating profit 1,000 million yen, profit before tax of 970 million yen, profit of 680 million yen, and profit attributable to owners of parent of 650 million yen.

(5) Basic Policy for Profit Distribution and Dividend Plans for the Current and Next Fiscal Years

Scala regards the distribution of profits to shareholders as one of its priorities. The basic policy is to make stable dividend payments while maintaining sufficient retained earnings to strengthen financial soundness and expand business operations in the future.

Scala has consistently paid interim and year-end dividends. The decision-making bodies for distributions of retained earnings are the general meeting of shareholders for year-end dividends and the Board of Directors for interim dividends.

For the current fiscal year, as a shareholder return from profits earned from investments for prior periods, Scala plans to pay an annual dividend of 36.0 yen per share, consisting of a year-end dividend of 18.0 yen per share, which will require approval at the Annual General Meeting of Shareholders scheduled on September 26, 2022, in addition to an interim dividend of 18.0 yen per share, which has already been paid.

For the fiscal year ending June 30, 2023, Scala plans to raise both the interim and year-end dividends to 18.5 yen each per share, resulting in an annual dividend of 37 yen per share, an increase for the fourteenth consecutive year, in accordance with the above basic policy and in view of future growth.

2. Basic Approach to the Selection of Accounting Standards

The Group has adopted IFRS since the fiscal year ended June 30, 2016, for the purpose of enhancing international comparability and the usefulness of financial information in capital markets.

3. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	FY6/22 (As of Jun. 30, 2022)
Assets		
Current assets		
Cash and cash equivalents	9,809,559	9,625,387
Trade and other receivables	1,412,951	1,614,342
Inventories	198,479	288,297
Reinsurance assets	–	363,426
Other current assets	1,570,200	138,844
Total current assets	12,991,192	12,030,298
Non-current assets		
Property, plant and equipment	623,252	638,519
Right-of-use assets	2,525,349	2,210,887
Goodwill	1,949,745	2,356,300
Intangible assets	175,906	1,219,123
Other financial assets	1,378,871	1,196,173
Securities related to investment business	202,981	466,924
Deferred tax assets	478,312	689,618
Other non-current assets	4,397	8,562
Total non-current assets	7,338,818	8,786,110
Total assets	20,330,010	20,816,408
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	697,097	947,982
Bonds and borrowings	3,355,217	3,306,693
Lease liabilities	481,420	536,434
Income taxes payable	44,164	94,504
Insurance contract liabilities	–	644,380
Other current liabilities	333,951	406,208
Total current liabilities	4,911,850	5,936,203
Non-current liabilities		
Bonds and borrowings	2,618,594	3,644,434
Lease liabilities	2,121,004	1,764,532
Deferred tax liabilities	75,201	317,718
Other non-current liabilities	132,382	147,268
Total non-current liabilities	4,947,182	5,873,952
Total liabilities	9,859,032	11,810,156
Equity		
Equity attributable to owners of parent		
Share capital	1,750,027	1,778,718
Capital surplus	934,989	965,568
Retained earnings	7,173,991	6,016,133
Treasury shares	(9)	(174,187)
Other components of equity	303,622	101,175
Total equity attributable to owners of parent	10,162,621	8,687,408
Non-controlling interests	308,355	318,844
Total equity	10,470,977	9,006,252
Total liabilities and equity	20,330,010	20,816,408

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statement of Income

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Continuing operations:		
Revenue	8,712,875	10,015,519
Cost of sales	(5,072,648)	(5,873,356)
Gross profit	3,640,227	4,142,163
Selling, general and administrative expenses	(3,316,823)	(4,125,757)
Other income	134,460	30,818
Other expenses	(48,526)	(372,646)
Operating profit (loss) before gains/losses on securities related to investment business	409,336	(325,423)
Gains/losses on securities related to investment business	4,082	(68,167)
Operating profit (loss)	413,419	(393,590)
Finance income	19,146	22,676
Finance costs	(50,884)	(41,033)
Profit (loss) before tax	381,681	(411,946)
Income tax expense	342,220	37,866
Profit (loss) from continuing operations	723,901	(374,079)
Discontinued operations:		
Profit (loss) from discontinued operations	2,501,926	(152,475)
Profit (loss)	3,225,828	(526,555)
Profit (loss) attributable to:		
Owners of parent	3,065,161	(523,037)
Non-controlling interests	160,666	(3,517)
Profit (loss)	3,225,828	(526,555)
Earnings per share:		
Basic earnings per share (Yen)		
Continuing operations	41.50	(21.01)
Discontinued operations	133.12	(8.65)
Total	174.62	(29.66)
Diluted earnings per share (Yen)		
Continuing operations	41.15	(21.01)
Discontinued operations	132.00	(8.65)
Total	173.15	(29.66)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Profit (loss)	3,225,828	(526,555)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	162,251	(200,770)
Other comprehensive income	162,251	(200,770)
Comprehensive income	3,388,079	(727,325)
Comprehensive income attributable to:		
Owners of parent	3,227,417	(723,808)
Non-controlling interests	160,662	(3,517)
Comprehensive income	3,388,079	(727,325)

(3) Consolidated Statement of Changes in Equity

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)

(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 (loss)	–	–	3,065,161	–	–	3,065,161
Other comprehensive income	–	–	–	–	162,255	162,255
Total comprehensive income	–	–	3,065,161	–	162,255	3,227,417
Change due to loss of control of subsidiaries	–	–	–	–	–	–
Share-based remuneration transactions	15,147	16,073	–	–	–	31,220
Share-based remuneration transactions of subsidiaries	–	–	–	–	–	–
Dividends	–	–	(526,261)	–	–	(526,261)
Exercise of share acquisition rights	13,640	13,640	–	–	(374)	26,907
Forfeiture of share acquisition rights	–	2,051	–	–	(2,051)	–
Establishment of subsidiaries with non-controlling interests	–	–	–	–	–	–
Acquisition and disposal of non-controlling interests	–	348	–	–	–	348
Transfer from other components of equity to retained earnings	–	–	139	–	(139)	–
Total transactions with owners	28,787	32,114	(526,122)	–	(2,564)	(467,785)
Balance as of Jun. 30, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2020	2,940,181	10,343,170
Profit (loss)	160,666	3,225,828
Other comprehensive income	(4)	162,251
Total comprehensive income	160,662	3,388,079
Change due to loss of control of subsidiaries	(2,761,838)	(2,761,838)
Share-based remuneration transactions	–	31,220
Share-based remuneration transactions of subsidiaries	(46,011)	(46,011)
Dividends	–	(526,261)
Exercise of share acquisition rights	–	26,907
Forfeiture of share acquisition rights	–	–
Establishment of subsidiaries with non-controlling interests	13,900	13,900
Acquisition and disposal of non-controlling interests	1,462	1,811
Transfer from other components of equity to retained earnings	–	–
Total transactions with owners	(2,792,487)	(3,260,272)
Balance as of Jun. 30, 2021	308,355	10,470,977

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)

(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, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	–	–	(523,037)	–	–	(523,037)
Other comprehensive income	–	–	–	–	(200,770)	(200,770)
Total comprehensive income	–	–	(523,037)	–	(200,770)	(723,808)
Increase (decrease) by business combination	–	–	–	–	–	–
Share-based remuneration transactions	10,164	10,961	–	–	–	21,125
Dividends	–	–	(634,897)	–	–	(634,897)
Purchase of treasury shares	–	–	–	(174,178)	–	(174,178)
Exercise of share acquisition rights	18,527	18,527	–	–	(508)	36,545
Forfeiture of share acquisition rights	–	1,090	–	–	(1,090)	–
Establishment of subsidiaries with non-controlling interests	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	77	–	(77)	–
Total transactions with owners	28,691	30,579	(634,820)	(174,178)	(1,676)	(751,404)
Balance as of Jun. 30, 2022	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2021	308,355	10,470,977
Profit (loss)	(3,517)	(526,555)
Other comprehensive income	–	(200,770)
Total comprehensive income	(3,517)	(727,325)
Increase (decrease) by business combination	9,006	9,006
Share-based remuneration transactions	–	21,125
Dividends	–	(634,897)
Purchase of treasury shares	–	(174,178)
Exercise of share acquisition rights	–	36,545
Forfeiture of share acquisition rights	–	–
Establishment of subsidiaries with non-controlling interests	5,000	5,000
Transfer from other components of equity to retained earnings	–	–
Total transactions with owners	14,006	(737,398)
Balance as of Jun. 30, 2022	318,844	9,006,252

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Cash flows from operating activities		
Profit (loss) before tax	381,681	(411,946)
Profit (loss) before tax from discontinued operations	2,662,304	(136,043)
Depreciation and amortization	982,971	684,218
Impairment loss	–	476,140
Loss (gain) on disposal of non-current assets	41,380	10,706
Loss (gain) on securities related to investment business	(4,082)	68,167
Loss (gain) on investment securities	(4,797)	–
Loss (gain) on sale of shares of subsidiaries	(2,435,747)	–
Finance income	(19,563)	(22,708)
Finance costs	52,409	41,033
Decrease (increase) in trade and other receivables	461,415	470,095
Increase (decrease) in trade and other payables	391,633	(241,397)
Decrease (increase) in inventories	(38,810)	(88,445)
Decrease (increase) in reinsurance assets	–	7,591
Increase (decrease) in insurance contract liabilities	–	5,683
Other	25,222	(29,888)
Subtotal	2,496,018	833,206
Interest and dividends received	19,289	20,585
Interest paid	(47,543)	(34,320)
Income taxes refund (paid)	(1,746,949)	1,229,083
Net cash provided by (used in) operating activities	720,814	2,048,554
Cash flows from investing activities		
Purchase of property, plant and equipment	(137,953)	(138,507)
Purchase of intangible assets	(632,855)	(60,351)
Purchase of investment securities	(232,375)	(392,110)
Proceeds from sale of investment securities	49,253	20
Payments for loans receivable	(460)	(12,000)
Collection of loans receivable	4,366	152
Payments of leasehold and guarantee deposits	(221,757)	(14,841)
Proceeds from refund of leasehold and guarantee deposits	34,315	50,260
Purchase of shares of subsidiaries resulting in changes in scope of consolidation	(65,100)	(1,325,242)
Purchase of investments accounted for using equity method	(18,915)	–
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	5,652,058	–
Other	(1,420)	(920)
Net cash provided by (used in) investing activities	4,429,154	(1,893,541)

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(298,336)	(308,220)
Proceeds from long-term borrowings	740,545	2,713,000
Repayments of long-term borrowings	(2,309,263)	(1,350,512)
Redemption of bonds	(620,000)	(140,000)
Proceeds from issuance of bonds	350,000	–
Repayments of lease liabilities	(549,813)	(481,743)
Proceeds from exercise of share acquisition rights	57,201	36,545
Payments for purchase of treasury shares	–	(174,178)
Dividends paid	(524,111)	(633,914)
Dividends paid to non-controlling interests	(659)	–
Other	(5,938)	–
Net cash provided by (used in) financing activities	(3,160,376)	(339,022)
Effect of exchange rate changes on cash and cash equivalents	(2,758)	(162)
Net increase (decrease) in cash and cash equivalents	1,986,833	(184,171)
Cash and cash equivalents at beginning of period	7,822,725	9,809,559
Cash and cash equivalents at end of period	9,809,559	9,625,387

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 Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to 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 twelve months ended June 30, 2022 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group aims to become a "value co-creation company solving social problems with clients through business" through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business, mainly focusing on services supporting communication between companies and people.

For more information, please refer to "Segment Information, (1) Overview of reportable segments in Notes to Consolidated Financial Statements. In the fourth quarter of the fiscal year ended June 30, 2022, we resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary, and thus Scala Works, Inc. is classified as a discontinued operation. For more information, please refer to "Discontinued Operations" in Notes to Consolidated Financial Statements.

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with IFRS pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976) because the Group qualifies as a "specified company complying with designated international accounting standards" as stipulated in Article 1-2 of the said Ordinance.

(2) Basis of measurement

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

3. Significant Accounting Policies

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

The Group early adopted IFRS 17 *Insurance Contracts* in the current fiscal year.

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of the consolidated financial statements with IFRS 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 concerning the following matters that have a material impact on the amounts reported in the consolidated financial statements.

- Measurement of property, plant and equipment, goodwill, and intangible assets
- Lease term of right-of-use assets

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 fiscal year ended June 30, 2022, Scala resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary, and the businesses operated by Scala Works, Inc. have been classified as a discontinued operation and excluded from the segment information for the previous and current fiscal years.

As stated in 1. Overview of Results of Operations, the Insurance Business segment has been added from the current fiscal year.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through IT, AI, 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. This business also provides SaaS/ASP services using IT (Web, phone, fax, SMS related technologies)/AI/IoT technologies to meet customer needs flexibly and quickly.
- 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 recruiting support for new graduates and mid-career employees focusing on physical education students and professional athletes, infant education and sports education to support children to foster personality, and operates a professional basketball team.
- The EC Business operates Yuyu-Tei, a reuse EC site for buying and selling trading cards games (TCG) for battle-type games, which also contains game walkthrough pages.
- The Insurance Business operates pet insurance "Insurance for Dogs and Cats" that covers medical expenses incurred on treatment of sick or injured pets, such as visit, stay, or surgery at an animal hospital. Medical expenses for pets are to be covered up to the amount limit or within a certain range.
- The Incubation & Investment Business engages in M&A and alliance with other companies. It also provides support for new business development working with private companies in coordination with governments and municipalities across the nation, and offers regional revitalization services through projects such as those for promoting relocations to rural areas. In addition, it makes business investments on its own or through investment partnerships, 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

FY6/21 (Jul. 1, 2020 – Jun. 30, 2021) (Thousands of yen)

	Reportable segment							Adjustments (Note 1)	Amounts shown on consolidated statement of income (Note 3)
	IT/AI/IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	4,146,840	1,837,624	1,331,850	1,311,738	–	84,821	8,712,875	–	8,712,875
Inter-segment sales and transfers	29,791	50,520	33,553	–	–	18	113,883	(113,883)	–
Total	4,176,632	1,888,144	1,365,404	1,311,738	–	84,839	8,826,759	(113,883)	8,712,875
Segment profit (loss)	756,621	(12,585)	10,780	162,729	–	(387,964)	529,581	(116,161)	413,419
Finance income									19,146
Finance costs									(50,884)
Profit before tax									381,681

Notes: 1. The (116,161) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 44,016 thousand yen and corporate expenses of (160,177) thousand yen, which were allocated to discontinued operations.
2. Corporate expenses are allocated to each reportable segment based on a rational basis.
3. Segment profit is adjusted to be consistent with operating profit presented in the 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.

FY6/22 (Jul. 1, 2021 – Jun. 30, 2022) (Thousands of yen)

	Reportable segment							Adjustments (Note 1)	Amounts shown on consolidated statement of income (Note 3)
	IT/AI/IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	4,875,982	1,357,543	1,468,256	1,654,561	452,463	206,711	10,015,519	–	10,015,519
Inter-segment sales and transfers	53,208	95,086	7,926	–	–	13,566	169,788	(169,788)	–
Total	4,929,191	1,452,629	1,476,183	1,654,561	452,463	220,277	10,185,307	(169,788)	10,015,519
Segment profit (loss)	236,178	(31,257)	61,709	239,203	(28,677)	(866,893)	(389,737)	(3,852)	(393,590)
Finance income									22,676
Finance costs									(41,033)
Loss before tax									(411,946)

Other items									
Impairment loss	252,800	–	105,058	–	–	–	357,858	–	357,858

Notes: 1. The (3,852) thousand yen adjustment to segment profit indicates elimination for inter-segment transactions of (3,852) thousand yen.
2. Corporate expenses are allocated to each reportable segment based on a rational basis.
3. Segment profit or loss is adjusted to be consistent with operating loss presented in the 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.

Discontinued Operations

Effective on August 14, 2020, the Company concluded an agreement with C5-8 Holdings Co., Ltd. on transferring all shares of SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary. Subsequently on March 22, 2021, the Company completed the transfer of the shares in accordance with the said share transfer agreement.

As SOFTBRAIN Co., Ltd. was excluded from the scope of consolidation in the previous fiscal year, the businesses operated by SOFTBRAIN Co., Ltd. and its subsidiaries have been reclassified and separately presented as discontinued operations.

As the Company resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary in the current fiscal year, the businesses operated by Scala Works, Inc. have been classified as a discontinued operation and separately presented.

(1) Discontinued operations performance

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Profit or loss from discontinued operations		
Revenue	9,537,136	43
Expenses	(6,874,832)	(136,087)
Profit (loss) before tax from discontinued operations	2,662,304	(136,043)
Income tax expense	(160,377)	(16,431)
Profit (loss) from discontinued operations	2,501,926	(152,475)

Note: 1. Revenue in FY6/21 includes gain on sale of shares of subsidiaries of 2,435,747 thousand yen resulting from the transfer of all shares of SOFTBRAIN Co., Ltd.
2. Expenses in FY6/22 include impairment loss on goodwill of 118,282 thousand yen.

(2) Cash flows from discontinued operations

(Thousands of yen)

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Cash flows from discontinued operations:		
Cash flows from operating activities	(2,739,771)	(18,358)
Cash flows from investing activities	5,098,255	(12,000)
Cash flows from financing activities	258,630	–
Effect of exchange rate changes on cash and cash equivalents	(1,206)	–
Total	2,615,907	(30,358)

Per-share Information

Basic earnings per share and diluted earnings per share are as follows.

	FY6/21 (Jul. 1, 2020 – Jun. 30, 2021)	FY6/22 (Jul. 1, 2021 – Jun. 30, 2022)
Profit (loss) attributable to owners of parent (thousands of yen)		
Continuing operations	728,436	(370,562)
Discontinued operations	2,336,725	(152,475)
Profit (loss) used to calculate diluted earnings per share (thousands of yen)		
Continuing operations	728,436	(370,562)
Discontinued operations	2,336,725	(152,475)
Average number of common shares outstanding during the period (shares)	17,553,348	17,636,193
Increase in the number of common shares		
Share acquisition rights (shares)	148,731	78,124
Average number of diluted common shares outstanding during the period (shares)	17,702,079	17,714,318
Basic earnings (loss) per share (yen)		
Continuing operations	41.50	(21.01)
Discontinued operations	133.12	(8.65)
Diluted earnings (loss) per share (yen)		
Continuing operations	41.15	(21.01)
Discontinued operations	132.00	(8.65)

Note: In the current fiscal year, there are no potential shares with dilutive effect because the exercise of share acquisition rights and other events decrease loss per share of continuing operations.

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.