

May 15, 2023

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2023 (Nine Months Ended March 31, 2023) [IFRS]

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Scheduled date of filing of Quarterly Report: May 15, 2023

Scheduled date of payment of dividend: –

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting: None

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

1. Management Performance Measures under IFRS and Non-GAAP

Consolidated Results of Operations (July 1, 2022 – March 31, 2023)

(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	%
(IFRS)										
Nine months ended Mar. 31, 2023	9,864	47.2	336	–	320	–	220	–	230	–
Nine months ended Mar. 31, 2022	6,700	–	(37)	–	(46)	–	(38)	–	(32)	–
(Non-GAAP)										
Nine months ended Mar. 31, 2023	9,864	47.2	340	252.0	324	271.0	185	189.0	194	178.3
Nine months ended Mar. 31, 2022	6,700	–	96	–	87	–	64	–	69	–

	IFRS		Non-GAAP	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
	Yen	Yen	Yen	Yen
Nine months ended Mar. 31, 2023	13.33	13.28	11.24	11.20
Nine months ended Mar. 31, 2022	(1.87)	(1.87)	3.97	3.95

Notes: 1. In the fourth quarter of the fiscal year ended 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 nine months ended March 31, 2022 were reclassified by deducting the amounts of those from the discontinued operation from the amounts of those from continuing operations. Because of this, these year-on-year changes are not presented. The liquidation of the company has been completed in the third quarter of the fiscal year ending June 2023.

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 18 of Attachments.

2. In non-GAAP measures, 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.

3. In non-GAAP measures, in addition to the above Note 2, expenses associated with merger and acquisition and expenses incurred on the relocation of the head office of Scala's subsidiaries of 67 million yen were deducted from the line items below operating profit for the nine months ended March 31, 2022.

4. For details of the non-GAAP measures, please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance (1) Explanation of Results of Operations" on page 2 of Attachments.

2. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Mar. 31, 2023	19,800	8,538	8,221	41.5	474.51
As of Jun. 30, 2022	20,816	9,006	8,687	41.7	497.29

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2022	–	18.00	–	18.00	36.00
Fiscal year ending Jun. 30, 2023	–	18.50	–		
Fiscal year ending Jun. 30, 2023 (forecasts)				18.50	37.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2023 under IFRS (July 1, 2022 – June 30, 2023)

(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	13,000	29.8	300	–	280	–	195	–	200	–	11.55

Note: Revisions to the most recently announced earnings forecast: Yes

Regarding the consolidated earnings forecasts for the fiscal year ending June 30, 2023, please refer to the “Notice of Revision to Full-Year Consolidated Earnings Forecasts” (available only in Japanese) announced today (May 15, 2023).

* 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 Mar. 31, 2023: 17,725,659 shares As of Jun. 30, 2022: 17,698,259 shares

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

As of Mar. 31, 2023: 400,008 shares As of Jun. 30, 2022: 228,608 shares

3) Average number of outstanding shares during the period

Nine months ended Mar. 31, 2023: 17,322,565 shares Nine months ended Mar. 31, 2022: 17,640,810 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

Cautionary statement with respect to forecasts

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.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (May 15, 2023) and available on the Scala's website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

Scala, Inc. (“Scala” or “the Company”) and its group companies (collectively “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.

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work’s business as discontinued operations.

Accordingly, revenue, operating loss, and loss before tax for the nine months ended March 31, 2022 were reclassified by deducting the amounts of those from the discontinued operations from the amounts of those from continuing operations. The Company completed the liquidation during the third quarter of the fiscal year ending June 30, 2023.

(1) Explanation of Results of Operations

During the first nine months of the fiscal year ending June 30, 2023 (the “period under review”), the Japanese economy continued to face uncertainties. The drivers of the uncertainties include the price hikes due to the limited energy supply and the fluctuations in financial and capital markets which caused by the downswings in overseas economies due to the globally soaring energy prices and the collapses of certain banks by the monetary tightening in Europe and the United States. On the other hand, the Japanese economic activities are showing signs of pick up as the activity restrictions due to COVID-19 are being eased in phases. In fact, there were signs of recovery due to the increased consumer spending supported by the government’s nationwide travel discount program and the increased demand from inbound tourists. Even under such circumstances, the use of cutting-edge technologies of digital transformation (DX) such as AI, IoT, and RPA is accelerated to streamline operations for cost reduction and creation of a new work style, while ChatGPT, a generative AI service, attracts attention.

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.

As a result, the Group reported revenue of 9,864 million yen (up 47.2% year on year) for the period under review. This increase was due to an increase in revenue from the IT/AI/IoT/DX Business and the HR & Education Business as well as continued steady growth in the EC Business, though partially offset by a decrease in revenue from the Customer Support Business.

On the profitability front, the Group reported operating profit of 336 million yen (compared with operating loss of 37 million yen a year earlier). This result can be explained mainly by an increase in profit from the HR & Education Business with strong demand for active recruitment, and EC Business. This result can also be explained by an increase in profit from the Incubation & Investment Business due to improvement in profitability and reduction of costs amid the continued aggressive investment toward the development of various new businesses, such as intensive business activities to support corporate value creation leading to major DX projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses.

Profit before tax amounted to 320 million yen (compared with loss before tax of 46 million yen a year earlier) despite an increase in interest expenses. As a result of recording income tax expense of 138 million yen, profit amounted to 220 million yen (compared with loss of 38 million yen a year earlier) and profit attributable to owners of parent amounted to 230 million yen (compared with loss attributable to owners of parent of 32 million yen a year earlier).

(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.

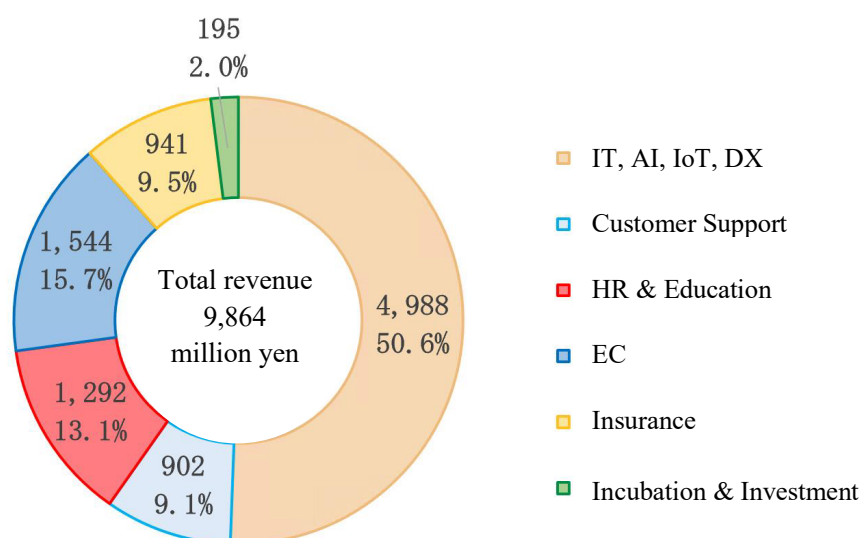
For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the line items below it, and profit from discontinued operations was deducted from profit and line items below it.

During the first nine months of the previous fiscal year, in addition to the above-mentioned deduction, there were 67 million yen of expenses associated with M&A transactions and the relocation of the head office of Scala's subsidiaries.

Business segment performance is as follows.

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

Composition of revenue by segment (millions of yen)



(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and EGG CO., LTD. as main players continued working for major companies, local governments, the central government, and government agencies by providing planning and system development of new services for promoting DX, as well as proposal, introduction support, and provision of the existing SaaS/ASP services.

One of the major projects, Scala Communications, Inc., desamis Co., Ltd., and Mitsui Sumitomo Insurance Company, Limited under MS&AD Insurance Group Holdings, Inc. developed U-Medical Support and started the service on January 31, 2023. The service provides a comprehensive medical treatment support tool for cow, for which Ministry of Agriculture, Forestry and Fisheries has been promoting utilization, with functions for remote treatment, electronic medical records, and instructions. The service, which includes remote treatment, electronic medical record, and linkage of cow behavior data, will also support transformation of work style in the industry by improving operational efficiency and productivity of veterinarians and farmers.

Other existing services are also being introduced, including the FAQ management system “i-ask” for NIPPON CORPORATION, the website search service “i-search” for Hadano City in Kanagawa Prefecture, and “i-livechat” for Consumers’ Co-op Tohto.

EGG CO., LTD will start new development of a system for the frailty prevention project in response to the Digital Garden City Nation Fund granted to the Healthcare Platform Implementation Program promoted by Yonago City in Tottori Prefecture. The program is scheduled to start in the summer of 2023 and will contribute to revenue increase. In addition, the company developed Tottori Health Plus, a system that allows analysis of medicine and nursing care database, under contract with Tottori National Health Insurance Organization.

Connect Agency, Inc. is successfully promoting significant reduction in equipment expenses, and 50% reduction in fixed costs is expected in and after July. In addition, three proposal activities for large programs with over 100 IDs are in progress to win contacts by the end of this fiscal year. The Company will continue solution proposals for call centers.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		3,203	4,988	1,784 [55.7%]
Segment profit (IFRS)	Before allocation of corporate expenses	832	911	78 [9.4%]
	After allocation of corporate expenses	385	418	32 [8.5%]

(ii) Customer Support Business

In this business segment, Leoconnect, Inc. as a main player provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations. Net sales decreased due to a decrease of the number of customer contacts of electric power companies in the second quarter. However, it is recovering in response to demand increase of support business to obtain subscription contracts of fiber-optic network by the initiation of new BPO projects and new life start in April.

In addition, a new consulting business for a call center is expected to start in the fourth quarter. We will continuously strive to win new contracts while enhancing sales activities for the existing customers.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		1,030	902	(128) [(12.5)%]
Segment profit (IFRS)	Before allocation of corporate expenses	(24)	(39)	(14) [-]
	After allocation of corporate expenses	(27)	(46)	(19) [-]

(iii) HR & Education Business

This business consists of the following services: recruitment support services for new graduates and mid-career hires, specialized for athletic students and female students, as well as for the planning and operation of related events such as joint company information sessions and career seminars, by Athlete Planning, Inc.; childcare and educational services, which engage in opening and operations of facilities 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 Largo KIDS after-school day service focusing on athletic activities by FourHands, Inc.; and sports education services, which engage in planning and operations of sports school for children including baseball, soccer, basketball, and Ballschule (which literally means “ball school”), and sports events by Sports Stories, Inc.

In the recruitment support services, willingness to recruit new employees for the spring of 2024 continues to rise with the resumption of the economy after the pandemic and the labor shortage. Against this backdrop, the number of joint company information sessions increased steadily to 80 during the period under review, compared with 72 sessions held during the same period of the previous fiscal year.

In the childcare and educational services, preschools Universal Kids Shinagawa and Universal Kids Bangkok, pre-opened in September 2022, opened in April 2023.

In the sports education services, the Company continued considering businesses with the government sports administration in cooperation with the national and local governments.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		1,083	1,292	209 [19.3%]
Segment profit (IFRS)	Before allocation of corporate expenses	145	218	72 [49.8%]
	After allocation of corporate expenses	107	174	66 [61.9%]
Segment profit (Non-GAAP)	Before allocation of corporate expenses	155	218	62 [40.1%]
	After allocation of corporate expenses	117	174	56 [47.9%]

Note: For the first nine months of the previous fiscal year, expenses including those incurred on relocation of the head office of Scala's subsidiaries were deducted to derive the non-GAAP measures.

(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. In the period under review, both revenue and profit remained strong at a level much higher than the previous fiscal year as a result of the efforts for digital marketing including SEO. In particular, backed by the current exchange rate environment, purchasing activities by overseas users have been increasing month after month, contributing to higher sales. Going forward, we will always actively consider introducing cutting-edge technologies to design and provide comfortable UI/UX.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		1,213	1,544	330 [27.2%]
Segment profit (IFRS)	Before allocation of corporate expenses	207	259	51 [24.7%]
	After allocation of corporate expenses	176	212	35 [20.2%]

(v) Insurance Business

This business operates the pet insurance “Insurance for Dogs and Cats.” The pet insurance market is expected to continue growing significantly because of the policyholder ratio being low compared with Europe and the United States, which implies the market has room for further growth. In such market environment, to organically increase the acquisition of insurance contracts by insurance products with caring design for treatment costs and insurance claims, we are working to strengthen SEO measures and advertisement delivery and aggressively find new sales channels.

We also focus on development of new products that ensure more safe and secure environment for dogs and cats to meet needs of a broad range of customers. Through these measures, we are working to create a system that generates stable profits aiming significant increase in new insurance contracts.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		–	941	– [–]
Segment profit (IFRS)	Before allocation of corporate expenses	–	(94)	– [–]
	After allocation of corporate expenses	–	(121)	– [–]

(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 among the central government, 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 workcation. 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. supports the creation of new businesses for addressing social problems in public-private co-creation through a variety of Gyaku Propo services. The company was positively evaluated for the secretariat operations and the support in business development to solve social issues last fiscal year for the Ministry of Economy, Trade and Industry's program—Project for Business Introduction and Startup Promotion by Collaboration of Local Governments and Companies. The company has been selected for the second consecutive year by the positive evaluation. Gyaku Propo Lab@ARCH, established within ARCH operated by Mori Building Co., Ltd. in October 2022, is a place where public and private sectors meet and dialogue easily aiming business co-creation. By the end of March 2023, 157 people from 53 local governments and 132 people from 79 companies in total visited there, and Gyaku Propo Tour (a tour to view social issues of local governments) was conducted. It led to creation of currently ongoing DX projects including community currency. Gyaku Propo Concierge is a service to reframe social issues of local governments from a viewpoint of business and coordinates business creation. It led to speedy business development including a demonstration experiment of Smart Management DX for Official Vehicles by TOKAI RIKKA CO., LTD. and Iwata City in Shizuoka Prefecture in anticipation of full introduction. Gyaku Propo also attracts attention. It was elected in Japan Service Innovation 2022 by Japan Productivity Center, a public interest incorporated foundation and also elected as an excellent case example in the Private-Public Initiative Examples for the Public-Private Partnership Platform for Regional Revitalization SDGs promoted by the Cabinet Office. We are continuing new challenges to establish co-creation economy attracting the Government and other organizations.

Scala Partners, Inc. has worked on, through the operation of workcation services for corporations, addressing companies' challenges on the promotion of remote working, establishing a workshop and verifying the effect of workcation in collaboration with college institutions, and developing content for training and training camp programs targeting companies by leveraging the concept of workcation.

We concluded a comprehensive partnership agreement with Mitsui Sumitomo Insurance Company, Limited to promote reform of working style and joined Japan Workcation Association to build further relationship with companies and local governments. As such, monetization is in progress in response to increase in service subscription.

J-Phoenix Research Inc. has provided listed companies with IR support including the preparation of an integrated report and development of a medium-term business plan. SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, has endeavored to increase the value for the invested companies by, for example, promoting digital transformation.

Moreover, focusing on business expansion through M&A as one of the growth strategies, we have continued actively engaging in deal sourcing and providing co-creation oriented M&A advisory and M&A implementation support services by leveraging the accumulated M&A experiences and the know-how on digital transformation in the Group.

(Millions of yen)

		First nine months of FY6/22	First nine months of FY6/23	Year-on-year change Amount [%]
Revenue		168	195	27 [16.4%]
Segment profit (IFRS)	Before allocation of corporate expenses	(404)	(129)	274 [-]
	After allocation of corporate expenses	(675)	(300)	374 [-]
Segment profit (Non- GAAP)	Before allocation of corporate expenses	(280)	(125)	154 [-]
	After allocation of corporate expenses	(551)	(296)	254 [-]

- Notes: 1 For the first nine months of the previous fiscal year, profit and loss on securities related to investment business, expenses associated with merger and acquisitions, and expenses incurred on relocation of the head office of Scala's subsidiary were deducted to derive the non-GAAP measures.
2. For the period under review, profit and loss on securities related to investment business was deducted to derive the non-GAAP measures.

(2) Explanation of Financial Position

Assets

Total assets amounted to 19,800 million yen at the end of the period under review, a decrease of 1,016 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 161 million yen due to sales in securities related to investment business and 1,191 million yen in cash and cash equivalents primarily due to purchase of treasury shares and year-end dividends, which was partially offset by an increase of 258 million yen in reinsurance assets.

Liabilities

Liabilities totaled 11,261 million yen, a decrease of 548 million yen over the end of the previous fiscal year. This was mainly attributable to decreases of 113 million yen in trade and other payables, 80 million yen in income taxes payable due to the payment of income taxes, and 295 million yen in lease liabilities.

Equity

Equity totaled 8,538 million yen, a decrease of 467 million yen over the end of the previous fiscal year. This was mainly due to decreases of 125 million yen due to the purchase of treasury shares and 634 million yen in retained earnings due to the payment of dividends, which were partially offset by the recording of profit attributable to owners of parent of 230 million yen.

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

For the revision of consolidated forecasts for the fiscal year ending June 30, 2023, please refer to the "Notice Concerning Revision of Consolidated Earnings Forecasts (Japanese version only) released today.

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	(Thousands of yen)	
	FY6/22 (As of Jun. 30, 2022)	Third quarter of FY6/23 (As of Mar. 31, 2023)
Assets		
Current assets		
Cash and cash equivalents	9,625,387	8,434,201
Trade and other receivables	1,614,342	1,577,448
Inventories	288,297	356,372
Reinsurance assets	363,426	622,150
Other current assets	138,844	471,729
Total current assets	12,030,298	11,461,902
Non-current assets		
Property, plant and equipment	638,519	590,204
Right-of-use assets	2,210,887	1,946,624
Goodwill	2,356,300	2,356,300
Intangible assets	1,219,123	1,154,587
Other financial assets	1,196,173	1,330,404
Securities related to investment business	466,924	305,446
Deferred tax assets	689,618	647,066
Other non-current assets	8,562	7,853
Total non-current assets	8,786,110	8,338,488
Total assets	20,816,408	19,800,390
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	947,982	834,622
Bonds and borrowings	3,306,693	4,023,769
Lease liabilities	536,434	555,978
Income taxes payable	94,504	14,255
Insurance contract liabilities	644,380	672,918
Other current liabilities	406,208	444,157
Total current liabilities	5,936,203	6,545,700
Non-current liabilities		
Bonds and borrowings	3,644,434	2,906,814
Lease liabilities	1,764,532	1,449,620
Deferred tax liabilities	317,718	206,721
Other non-current liabilities	147,268	152,686
Total non-current liabilities	5,873,952	4,715,843
Total liabilities	11,810,156	11,261,544
Equity		
Equity attributable to owners of parent		
Share capital	1,778,718	1,785,691
Capital surplus	965,568	984,164
Retained earnings	6,016,133	5,612,188
Treasury shares	(174,187)	(299,966)
Other components of equity	101,175	139,186
Total equity attributable to owners of parent	8,687,408	8,221,264
Non-controlling interests	318,844	317,581
Total equity	9,006,252	8,538,846
Total liabilities and equity	20,816,408	19,800,390

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

(Thousands of yen)

	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Continuing operations		
Revenue	6,700,191	9,864,902
Cost of sales	(3,732,855)	(5,900,654)
Gross profit	2,967,335	3,964,248
Selling, general and administrative expenses	(2,943,740)	(3,649,102)
Other income	14,097	40,731
Other expenses	(7,920)	(15,290)
Operating profit before gains/losses on securities related to investment business	29,772	340,587
Gains/losses on securities related to investment business	(66,929)	(3,978)
Operating profit (loss)	(37,157)	336,609
Finance income	20,131	25,735
Finance costs	(29,337)	(41,453)
Profit (loss) before tax	(46,363)	320,892
Income tax expense	7,982	(138,172)
Profit (loss) from continuing operations	(38,380)	182,719
Discontinued operations		
Profit (loss) from discontinued operations	(356)	38,142
Profit (loss)	(38,736)	220,862
Profit (loss) attributable to:		
Owners of parent	(32,960)	230,875
Non-controlling interests	(5,776)	(10,013)
Profit (loss)	(38,736)	220,862
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	(1.85)	11.13
Discontinued operations	(0.02)	2.20
Total	(1.87)	13.33
Diluted earnings (loss) per share (Yen)		
Continuing operations	(1.85)	11.09
Discontinued operations	(0.02)	2.19
Total	(1.87)	13.28

Condensed Quarterly Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Profit (loss)	(38,736)	220,862
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(90,157)	38,202
Total other comprehensive income, net of tax	(90,157)	38,202
Comprehensive income	(128,894)	259,065
Comprehensive income attributable to:		
Owners of parent	(123,117)	269,078
Non-controlling interests	(5,776)	(10,013)
Comprehensive income	(128,894)	259,065

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 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 at beginning of period	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	–	–	(32,960)	–	–	(32,960)
Total other comprehensive income	–	–	–	–	(90,157)	(90,157)
Comprehensive income	–	–	(32,960)	–	(90,157)	(123,117)
Increase (decrease) by business combination	–	–	–	–	–	–
Dividends	–	–	(634,897)	–	–	(634,897)
Exercise of share acquisition rights	15,982	15,982	–	–	(438)	31,525
Share-based remuneration transactions	10,164	5,879	–	–	–	16,043
Forfeiture of share acquisition rights	–	1,077	–	–	(1,077)	–
Establishment of subsidiaries with non-controlling interest	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	77	–	(77)	–
Total transactions with owners	26,146	22,939	(634,820)	–	(1,593)	(587,328)
Balance at end of period	1,776,173	957,928	6,506,210	(9)	211,871	9,452,175

	Non-controlling interests	Total equity
	Balance at beginning of period	308,355
Profit (loss)	(5,776)	(38,736)
Total other comprehensive income	–	(90,157)
Comprehensive income	(5,776)	(128,894)
Increase (decrease) by business combination	2,921	2,921
Dividends	–	(634,897)
Exercise of share acquisition rights	–	31,525
Share-based remuneration transactions	–	16,043
Forfeiture of share acquisition rights	–	–
Establishment of subsidiaries with non-controlling interest	5,000	5,000
Transfer from other components of equity to retained earnings	–	–
Total transactions with owners	7,921	(579,406)
Balance at end of period	310,501	9,762,676

First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)

(Thousands of yen)

	Equity attributable to owners of parent					Total equity attributable to owners of parent
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
Balance at beginning of period	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408
Profit (loss)	–	–	230,875	–	–	230,875
Total other comprehensive income	–	–	–	–	38,202	38,202
Comprehensive income	–	–	230,875	–	38,202	269,078
Dividends	–	–	(634,821)	–	–	(634,821)
Exercise of share acquisition rights	6,973	6,973	–	–	(191)	13,754
Share-based remuneration transactions	–	6,776	–	–	–	6,776
Purchase of treasury shares	–	–	–	(125,779)	–	(125,779)
Changes in ownership interest in subsidiaries	–	4,847	–	–	–	4,847
Total transactions with owners	6,973	18,596	(634,821)	(125,779)	(191)	(735,222)
Balance at end of period	1,785,691	984,164	5,612,188	(299,966)	139,186	8,221,264

	Non-controlling interests	Total equity
Balance at beginning of period	318,844	9,006,252
Profit (loss)	(10,013)	220,862
Total other comprehensive income	–	38,202
Comprehensive income	(10,013)	259,065
Dividends	–	(634,821)
Exercise of share acquisition rights	–	13,754
Share-based remuneration transactions	–	6,776
Purchase of treasury shares	–	(125,779)
Changes in ownership interest in subsidiaries	8,750	13,598
Total transactions with owners	8,750	(726,471)
Balance at end of period	317,581	8,538,846

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Cash flows from operating activities		
Profit (loss) before tax	(46,363)	320,892
Profit (loss) before tax from discontinued operations	(342)	(999)
Depreciation and amortization	488,008	594,965
Loss on retirement of fixed assets	6,390	12,112
Losses (gains) on securities related to investment business	66,929	3,978
Finance income	(20,160)	(24,331)
Finance costs	28,620	34,596
Decrease (increase) in trade and other receivables	467,243	(42,202)
Increase (decrease) in trade and other payables	(59,922)	(73,926)
Decrease (increase) in inventories	(50,343)	(68,075)
Decrease (increase) in reinsurance assets	–	(258,724)
Increase (decrease) in insurance contract liabilities	–	28,538
Other	2,530	(163,485)
Subtotal	882,590	363,338
Interest and dividends received	11,175	13,510
Interest paid	(24,475)	(28,749)
Income taxes refund (paid)	1,422,473	(315,898)
Net cash provided by (used in) operating activities	2,291,764	32,200
Cash flows from investing activities		
Purchase of property, plant and equipment	(133,401)	(82,182)
Purchase of intangible assets	(40,394)	(53,626)
Purchase of investment securities	(291,185)	(20,000)
Payments for loans receivable	(12,000)	–
Collection of loans receivable	152	–
Payments of leasehold and guarantee deposits	(14,481)	(10,566)
Proceeds from refund of leasehold and guarantee deposits	46,016	1,646
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,006,217)	–
Purchase of investments accounted for using equity method	–	(42,807)
Proceeds from sale of securities related to investment business	–	157,500
Other	(930)	788
Net cash provided by (used in) investing activities	(1,452,442)	(49,249)

	(Thousands of yen)	
	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(358,221)	549,999
Proceeds from long-term borrowings	2,130,000	650,000
Repayments of long-term borrowings	(1,046,575)	(1,186,221)
Redemption of bonds	(140,000)	(40,000)
Repayments of lease liabilities	(347,716)	(412,777)
Proceeds from exercise of share acquisition rights	31,964	13,754
Purchase of treasury shares	–	(125,779)
Dividends paid to owners of parent	(630,058)	(630,004)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(2,002)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	–	15,600
Net cash provided by (used in) financing activities	(360,606)	(1,167,430)
Effect of exchange rate changes on cash and cash equivalents	(796)	(6,705)
Net increase (decrease) in cash and cash equivalents	477,919	(1,191,185)
Cash and cash equivalents at beginning of period	9,809,559	9,625,387
Cash and cash equivalents at end of period	10,287,478	8,434,201

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://scalagr.jp/>).

Scala's consolidated financial statements for the nine months ended March 31, 2023 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."

2. Basis of Preparation

(1) Compliance with IFRS

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

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on May 15, 2023.

(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.

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.

It is noted that income tax expense for the period under review is determined based on the estimated annual effective tax rate.

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.

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work's business as a discontinued operation. Accordingly, Scala Works, Inc. was excluded from the HR & Education Business segment information for the first nine months of the previous and current fiscal years.

- 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, 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 operation of 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

First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)

(Thousands of yen)

	Reportable segment							Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	IT/AI/ IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	3,203,490	1,030,863	1,083,955	1,213,559	–	168,321	6,700,191	–	6,700,191
Inter-segment sales and transfers	50,426	57,909	5,689	–	–	8,677	122,702	(122,702)	–
Total	3,253,916	1,088,772	1,089,645	1,213,559	–	176,999	6,822,893	(122,702)	6,700,191
Segment profit (loss)	385,875	(27,249)	107,803	176,439	–	(675,272)	(32,404)	(4,752)	(37,157)
Finance income	–	–	–	–	–	–	–	–	20,131
Finance costs	–	–	–	–	–	–	–	–	(29,337)
Profit (loss) before tax	–	–	–	–	–	–	–	–	(46,363)

- Notes:
1. The (4,752) thousand yen adjustment to segment profit is elimination for inter-segment transactions.
 2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
 3. Corporate expenses are allocated to each segment based on a rational basis.
 4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)

(Thousands of yen)

	Reportable segment							Adjustments	Amounts shown on condensed quarterly consolidated financial statements (Note 1)
	IT/AI/ IoT/DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	4,988,056	902,402	1,292,997	1,544,057	941,467	195,921	9,864,902	–	9,864,902
Inter-segment sales and transfers	22,549	68,473	14,713	–	–	20,653	126,390	(126,390)	–
Total	5,010,605	970,876	1,307,711	1,544,057	941,467	216,574	9,991,293	(126,390)	9,864,902
Segment profit (loss)	418,697	(46,549)	174,534	212,065	(121,318)	(300,820)	336,609	–	336,609
Finance income	–	–	–	–	–	–	–	–	25,735
Finance costs	–	–	–	–	–	–	–	–	(41,453)
Profit (loss) before tax	–	–	–	–	–	–	–	–	320,892

- Notes:
1. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
 2. Corporate expenses are allocated to each segment based on a rational basis.
 3. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Discontinued Operations

As the Company resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary, in the fourth quarter of the fiscal year ended June 30, 2022, the financial results of Scala Works, Inc. were classified as discontinued operations and presented separately. The liquidation of the company was completed in the third quarter of the fiscal year ending June 30, 2023.

(1) Results of operations of discontinued operations

	(Thousands of yen)	
	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Profit or loss from discontinued operations		
Revenue	13,090	1,613
Expenses	(13,432)	(2,613)
Profit (loss) before tax from discontinued operations	(342)	(999)
Income tax expense	(14)	39,142
Profit (loss) from discontinued operations	(356)	38,142

(2) Cash flows from discontinued operations

	(Thousands of yen)	
	First nine months of FY6/22 (Jul. 1, 2021 – Mar. 31, 2022)	First nine months of FY6/23 (Jul. 1, 2022 – Mar. 31, 2023)
Cash flows from discontinued operations		
Cash flows from operating activities	(16,875)	(54,808)
Cash flows from investing activities	(12,000)	10
Cash flows from financing activities	–	–
Subtotal	(28,875)	(54,798)

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.