

Seeing social challenges as an opportunity

Recommendation rating (Sep 8)

Scala, Inc.

(4845.TSE Prime)

Overweight

Stock Price	Unit of Investment	Market Cap	year's high	year's low	PER(E)
756yen (9/8)	100Shares	13.10Bil yen (9/8)	814yen (23/6/7)	694yen (23/1/4)	31.2times (9/8)

Its revised medium-term business plan lays out more realistic targets to drive profitability

■ HR & Education and EC showed solid performance for FY06/23

Scala, Inc. reported its consolidated business results (non-GAAP base) for the year ended June 2023 (between July 2022 and June 2023, FY06/23; hereinafter referred to as 'the fiscal year'). In the fiscal year, sales revenue came to ¥12,644 million (up 32.1% from the same period last year) and operating profit jumped to ¥256 million (5.3 times the previous year's level). On the IFRS basis, sales revenue stood at ¥12,644 million and operating profit was ¥259 million yen, while the company posted a net loss of ¥218 million (back in May, it forecast sales revenue, operating profit and net income to be ¥13,000 million, ¥300 million and ¥200 million respectively). This is due to below-projected performance at its mainstay IT/AI/IoT/DX business. Meanwhile, the company sold its entire shareholdings in its two subsidiaries, Connect Agency, Inc. (CA), a provider of cloud-based PBX services, and an IR support operator J-Phoenix Research Inc. (JPR).

In the fiscal year, non-GAAP based operating profit for the HR & Education and EC businesses showed solid growth (before the reduction in allocated corporate and other costs, the former posted an operating profit of ¥295 million compared with ¥227 million in the previous year while the latter booked ¥379 million compared with ¥281 million). Meanwhile, the Incubation & Investment business reduced its losses from -¥353 million a year ago period to -¥240 million. The HR & Education business enjoyed steady demand for its employment support services, particularly those specializing in students belonging to athletics clubs or female students. With the resumption of corporate operations, more companies showed interest in hiring, faced with a shortage of manpower. The EC business delivered all-time high sales revenue and operating profit. Its service 'Card shop - Yuyutei -' (literally meaning 'playful arbor') increased registered members to 241,000 (from 188,000 at previous fiscal year end). In contrast, the IT/AI/IoT/DX posted an increase in operating profit by a mere 1.1% y-o-y. Similarly, the Insurance business posted an operating loss of ¥160 million (compared with a loss of ¥28 million for the previous fiscal year) as it struggled to cope with tougher competition and non-current recognition of claim reserves. The Customer Support business also suffered a fall in revenue and further segment deficits. For FY06/24 ending June 2024 (between July 2023 and June 2024), Scala, Inc. forecasts that non-IFRS based sales revenue will be ¥12,800 million (up 1.2% y-o-y) and operating profit to stand at ¥650 million (2.5 times). **On the sales revenue front, despite a forecast reactionary fall in revenue of ¥1,089 million at its subsidiary EGG CO., LTD., thanks to the termination of projects related to the 'GoTo Travel Campaign' and 'Support for Nationwide Tourism', the fall is expected to be offset by higher revenue from existing businesses. The company projects to pay an annual dividend of ¥37.5 per share (the previous year was ¥37.0).**

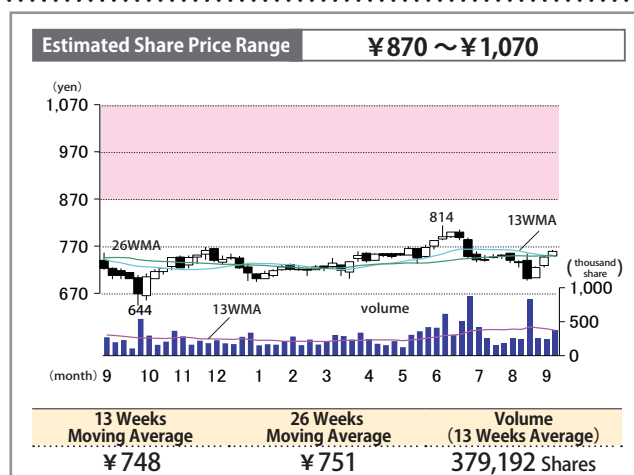
■ Incubation & Investment is poised to contribute to long-term earnings

Scala has revised its medium-term business plan and set new

Financial Results (as of Sep 8, 2023)

	Revenue (Yen Mil)	YoY (%)	Operating Profit (Yen Mil)	YoY (%)	Income Before Income Taxes (Yen Mil)	YoY (%)	Net Profit (Yen Mil)	YoY (%)	EPS (Yen)
2022-6 Past Results	9,569	—	▲191	—	▲210	—	▲526	—	▲29.66
2023-6 Past Results	12,644	32.1	259	—	233	—	▲218	—	▲12.62
2024-6 Company est.	12,800	1.2	650	2.5times	620	2.7times	420	—	24.2
WA est.	12,800	1.2	590	2.3times	570	2.4times	360	—	20.8
2025-6 WA est.	15,700	22.7	1,495	2.5times	1,435	2.5times	860	2.4times	48.6

※ The company prepares its financial information under the IFRS (International Financial Reporting Standards), but the above figures have been reconciled to non-GAAP measures (actual figures) by excluding adjustments and other items made on adoption of the IFRS.



earnings targets for FY 06/26 (including sales revenue of ¥15,500 million and operating profit of ¥2,000 million). It also announced a basic policy to 'establish a human development platform (PF)'. Specifically, it regards social challenges as the opportunity to grow SDGs businesses and envisions three PFs comprising: 'Meta PF', the nodal point between partners and other PFs, proactively grappling to identify solutions; 'Co-creation PF', striving to establish the optimal PF to address individual issues through a co-creation initiative; lastly 'Foundation PF' which promotes other PFs' contributions to value creation while operating individual businesses. On the back of organic cooperation of these three PFs, the company will apply its attention to the establishment of a foundation on which the group upgrades its own value and delivers solid growth.

Scala appears to have revised its medium term business plan for the purpose of laying out more realistic targets. Meanwhile, it has launched a series of actual co-creation initiatives with local governments and other business organizations that multilaterally approach business opportunities arising from social challenges. This means that it has been progressively broadening and reinforcing the basis for growth of its operations particularly the IT/AI/IoT/DX business. The plan sets a target for operating profit margin at 12.9% (5.1% for FY06/24). This bullish target seems to factor in the commencement of earnings contribution from the Incubation & Investment business. In light of these circumstances, Wealth Advisor (WA) has revised Scala's earnings forecasts for FY06/26 and later years. Given the macro-economic environment and other factors, we have produced more cautious forecasts than the company's medium term business plan, with the estimated share price ranging between ¥870 ~ ¥1,070, the midpoint of which was calculated

by multiplying WA's forecast EPS for FY06/26 by PER 20 times.
(written by Souta Suzuki)

Company Overview

Scala, Inc. embarked on an enterprise with the SaaS/ASP Service. The company strives to solve social issues and personal matters by promoting DX that draws upon IT, AI and IoT capabilities. It manages various services. These include the search engine within websites 'i-search' which have been adopted by more than 450 major companies and 'interactive voice response' (IVR). The IT/AI/IoT/DX business makes roughly half of its consolidated total sales revenue (48% in FY06/23 final). The business provides DX-related services to major companies, local governments, central government, and other public offices. It also proposes and provides support for the implementation of SaaS/APS services. Other businesses include 'Customer Support' (10%) which engages in a call center service, 'HR & Education' (13%) offering specialized new graduate employment support and 'EC' (17%), an operator of second-hand e-commerce sites in which users reuse trading card games. Scala regards direct/indirect investments along with IT services as its pivotal growth drivers. In light of this, its 'Incubation & Investment' business pursues M&A opportunities and promotes business alliances with other companies. In addition, SOCIALX, Inc., a subsidiary of the Incubation & Investment business, focuses on the 'Gyaku Propo' (reversed proposal) program, a service platform combining public-private co-creation projects. In 2022, Scala incorporated as its subsidiary Nihon Pet Small-amount Short-term Insurance Company., and commenced the 'Insurance' business (10%). Separately, the company sold its entire shareholdings in its two subsidiaries, Connect Agency, Inc. (CA), a provider of cloud-based PBX services, and an IR support operator J-Phoenix Research Inc. (JPR).

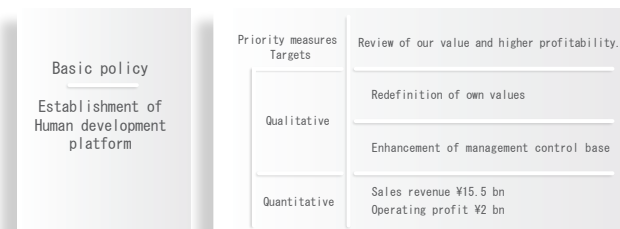
Business Environment and Outlook

According to the '2022 WHITE PAPER: Information and Communications' released by the Japanese Ministry of Internal Affairs and Communications, the penetration of AI and IoT has been showing marked progress, with the number of IoT devices in use worldwide estimated to increase from 25.3 billion units in 2020 to 39.85 billion units by the end of 2024. Thanks to mounting needs for further efficiency and labor saving operations across the board, the speed of adoption of AI technology appears to accelerate going forward. Scala sees social challenges as the opportunity for a SDGs business on the back of its IT technology, setting its eye on business growth in line with the new medium term business plan (for 2024 - 2026). In this plan, the company has conceived an appropriate project to address relevant social challenges either through a co-created initiative with its partners or by deploying self-developed services

Positioning of the Medium Term Business Plan → Outline of Medium Term Business Plan

Priority measures / Carry through the targets to consolidate the basis for growth: set out the clear direction of our future path

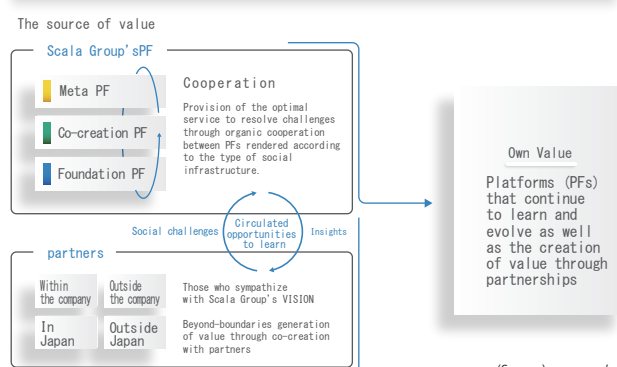
Outline for the Medium Term Business Plan '2024 - 2026'



(Source) company's data.

Priority measure Redefinition of own value > Scala Group's own value

Platforms (PFs) that continue to learn and evolve as well as the creation of value through partnerships are Scala Group's own value



(Source) company's data.

offered by its core businesses, among other means. The market size of the SDGs business is estimated to be ¥760 trillion, and the company considers an accelerating pace of earnings growth will continue after FY06/26 - the final year of the medium term business plan (the year's targets are for sales revenue of ¥15.5 billion and operating profit at ¥2.0 billion).

Risk Factors

Scala's operations potentially run some risks including - Faced with weakening business conditions, its major clients may hold down their IT investments; the growth in size and complexity of projects may cause delays in project development or additional costs; the SaaS/ASP services may face difficulties arising from server down issues and other challenges; and the Incubation & Investment business is at risk of making a loss.

Shareholder Return (as of Sep 8, 2023)

Dividends

		Dividend Per Share		
		First half	Second half	Annual
2022-6	Past Results	¥18.00	¥18.00	¥36.00
2023-6	Past Results	¥18.50	¥18.50	¥37.00
2024-6	Company est.	¥18.75	¥18.75	¥37.50

Shareholder Special Benefits

None

Competitor Comparison (If the number is better than rivals, it's highlighted by red character) (as of Sep 8, 2023)

	Scala, Inc. (4845•TSE Prime)	Techmatrix Corporation (3762•TSE Prime)	Cybozu, Inc. (4776•TSE Prime)	
Basic Point	Stock Price	¥756	¥1,638	¥2,108
	Unit of Investment	100Shares	100Shares	100Shares
	Minimum Investment Amount	¥75,600	¥163,800	¥210,800
	Fiscal Year End	June	March	December
Share Price Indicator	PER (E)	31.2times	20.4times	65.1times
	PBR	1.7times	3.4times	9.51times
	Dividend Yield (E)	5.0%	1.5%	0.7%
Growth	Revenue Growth Rate (E)	1.2%	35.6%	15.5%
	Operating Profit Growth Rate (E)	151.0%	41.9%	288.9%
	EPS Growth Rate (E)	▲291.8%	153.7%	2,131.7%
Profitability	Operating Margin (E)	5.1%	10.7%	9.3%
	ROE	—	16.4%	1.2%
	ROA (Ordinary income/Total assets)	—	—	6.6%
Financial Health	Equity ratio	42.8%	28.9%	29.1%
	Debt-Equity Ratio	76.6%	4.6%	101.1%
	Current Ratio	180.2%	143.6%	83.1%

We have chosen Techmatrix Corporation (stock code: 3762) and Cybozu, Inc. (4776) as industry peers.

■Growth

FY06/24 is likely to see a marginal increase in sales revenue, but it should maintain the sales growth momentum if we factor out the impact of non-current reactionary fall in business activities such as the 'GoTo Travel Campaign'. Operating profit is expected to show a high rate of growth at 2.5 times the level recorded a year ago. Meanwhile, the new medium term business plan has set out targets for FY06/26 of achieving sales revenue of ¥ 15,500 million and operating profit of ¥2,000 million.

Scala is implementing its management policy, under which it promotes the diversification of its business portfolio, investment in new businesses and rigorous pursuit of M&A deals, evolving around the core IT/AI/IoT/DX business.

■Profitability

Operating profit margin for FY06/24 is expected to be 5.1%. The company's medium-term business plan sets its target of 12.9% for FY06/26. Contribution to earnings from the Incubation & Investment business as well as improved profitability at existing businesses are coming in sight.

■Financial position

At the end of FY06/23, Scala's equity ratio stood at 42.8%. Interest-bearing debts on the same date were ¥6,002 million, a decrease from the ¥6,951 million logged at the end of the previous fiscal year. Retained earnings were ¥5,162 million. The company projects to pay increased full-year dividends for 15 years in succession.

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How to Read Wealth Advisor Equity Research Report

Our Uniqueness

(1) Emphasize Its Position as an Independent Evaluation Organization

Wealth Advisor emphasizes its position as an independent evaluation organization and is committed to providing objective comparison and assessment in the Wealth Advisor Equity Research Report. For all stocks covered by us, we determine investment decisions, estimated share price range and earnings forecasts based on expertise of an individual analyst as well as the stock assessment committee consisting of several analysts.

(2) Universe of Covered Stocks

The stock assessment committee selects covered stocks based on the following criteria.

[Stock Selection Criteria]

- Domestic emerging companies that are rarely covered by analysts
- Stocks that are popular among retail investors (refer to data from online security brokers)
- Size of market capitalization (over about 5 billion yen)
- Exclude stocks which are liquidated or trade control, or stocks with going concern and excessive debt

(3) Investment Decisions Classified into Three Groups

We determine investment decisions for covered stocks after consultation with the stock assessment committee based on research, interview and analysis by each Wealth Advisor analyst.

Each stock is classified into either of three groups according to the following criteria.

Overweight

: Forecasted to go beyond the current stock price level by 15% or more in the next 6 months.

Neutral

: Forecasted to fall into the range of -15% ~+15% of the current stock price level in the next 6 months.

Underweight

: Forecasted to go below the current stock price level by 15% or more in the next 6 months.

We flexibly respond to any changes of observations regarding earnings forecasts, financial situations and stock price trends, and change investment decisions accordingly. "Under Review" status may be applied if any new information comes out and extra time is needed to determine investment decisions. Also we don't change investment decisions during trading hours. "Suspension" status may be applied when an analyst leaves our company.

(4) Estimated Share Price Range in the Medium Term

It shows the price range for a stock price in the next 6 months. We determine upper and lower range of stock price based on fair value estimates from share price indicator, technical factors such as chart points, most recent high and low prices, trend line and moving average, trading volume in each price range and such.

Analysis Points

■ Analyst Comment

Each analyst reports and evaluates the most recent earnings trend and business environment. It shows the most important information for stock investment such as evidence for investment decisions, perspectives on earnings forecasts and business prospects. Also to make sure it is easy to comprehend, we write in 2-4 paragraphs and use bold to emphasize important texts.

■ Revenue and Earnings Trend

It reports earnings in past two fiscal years, company forecasts and our forecasts for the current and next fiscal year. We predict earnings based on research as well as past quarterly earnings trend and analysis by segments.

■ Company Overview

It explains in detail what businesses the company is engaged in and how revenue sources are defined. Also on the basis of our research, it discusses what businesses the company will focus on in years to come and how it carries out mid-term business plan.

■ Business Environment and Outlook

It discusses current circumstances and growth potential of the industry to which the company belongs. A comprehensive report on the industry from different perspectives is provided through research interviews to competitors. Specific figures of the industry data are also introduced.

■ Risk factors

It shows the company's risk factors and describes various aspects of risks such as business, earnings and financials. Typical stock market risks are also taken into consideration.