

Turning social challenges into a business opportunity

# Scala, Inc. (4845: TSE Prime)

Recommendation rating (Aug. 30)

**Overweight**

Stock Price	Unit of Investment	Market Cap	52-Week High	52-Week Low	P/E Ratio (Est.)
¥479 (Aug. 30, 2024)	100 shares	¥8.50billion (Aug. 30, 2024)	¥769 (Jan. 23, 2024)	¥466 (Aug. 29, 2024)	24.4 x (Aug. 30, 2024)

## Improving profitability through a large-scale structural reform

### ■ Operating loss of ¥2.16 billion for FY06/24

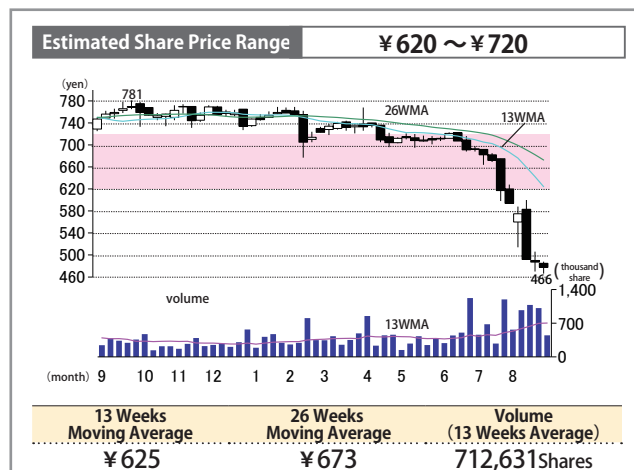
Scala, Inc. reported its consolidated business results for the fiscal year ended June 2024 (FY06/24). In FY06/24, sales revenue stood at ¥10.714 billion (down 9.5% year-on-year), and operating profit at a loss of ¥2.155 billion (profit of ¥397 million for the previous fiscal year) on an IFRS basis. Loss increased due to cancellation fees on offices and impairment of goodwill associated with a large-scale business restructuring, in addition to the impact of project reduction mainly in the DX Business. By business segment, the DX Business posted a loss of ¥1.217 billion (profit of ¥350 million for the previous fiscal year), recording restructuring costs of ¥149 million and impairment of goodwill and fixed assets of ¥945 million. The Financial Related Business also posted a substantial loss of ¥818 million (loss of ¥196 million for the previous fiscal year), incurring a hefty impairment of ¥613 million, as well as new product development costs in advance. The HR Business posted a profit of ¥266 million (down 6.9% year-on-year), and the EC Business a profit of ¥240 million (down 24.1% year-on-year). The Incubation Business posted a loss of ¥188 million (loss of ¥203 million for the previous fiscal year).

The performance plan for FY06/25 forecasts a revenue of ¥10.154 billion (down 5.2% year-on-year) and an operating profit of ¥555 million (a year-on-year improvement of ¥2.710 billion). The plan expects a substantial recovery of profits due to a decrease in fixed costs through the structural reform and reduction of losses in some businesses. The DX Business is expected to improve to a segment profit of ¥465 million. This is attributable to an increase in projects acquired by the core Scala Communications, Inc. mainly in the financial related field, despite a projected decrease in sales revenue due to the liquidation of Leoconnect, Inc. The EC Business, which saw its profits decrease in the previous fiscal year, also expects an earnings boost from an expansion of trading card lineups. The HR Business will enhance the mid-career recruitment domain, while seeking growth in services for new graduate recruitment. Loss in the Financial Related Business is projected to decrease due to the impairment in the previous fiscal year. The company plans an annual dividend of ¥16 per share (¥37.5 per share in the previous fiscal year).

### Financial Results (as of Aug. 30, 2024)

	Sales Revenue (Yen Mil)	YoY (%)	Operating Profit (Yen Mil)	YoY (%)	Income Before Income Taxes (Yen Mil)	YoY (%)	Net Profit (Yen Mil)	YoY (%)	EPS (Yen)
2023-6 Past Results	11,838	32.1	397	Loss to profit	374	Loss to profit	-218	Loss decrease	-12.6
2024-6 Past Results	10,714	-9.5	-2,155	Profit to loss	-2,166	Profit to loss	-2,887	Loss increase	-166.5
2025-6 Company est.	10,154	-5.2	555	Loss to profit	540	Loss to profit	340	Loss to profit	19.6
WA est.	9,960	-7.0	500	Loss to profit	490	Loss to profit	310	Loss to profit	17.9
2026-6 WA est.	10,950	9.9	660	32	630	28.6	400	29	22.6

※ The International Financial Reporting Standards (IFRS) have been applied.



### ■ Continued downsizing of unprofitable businesses to recover trust

Scala, Inc. embarked on a large-scale structural reform, against the backdrop of changes in the business environment for the DX Business. In addition to canceling office leases and streamlining through personnel reduction, the company reduced the number of its group companies from 18 as of July 2023 to 12 as of July 2024, by restructuring their businesses. Due to the substantial restructuring of unprofitable domains, as well as parts where cost efficiency was low, a rapid improvement of profitability is expected in FY06/25. **Going forward, the company will strengthen investments in sound existing businesses, with the three pillars of DX, HR, and EC Businesses. A medium-term business plan will be formulated at an early stage according to the progress of the restructuring. The structural reform will continue in FY06/25 under the leadership of Hideaki Nitta, the new president who assumed the position in April 2024. The company plans to proceed with the review of its profit structure, including a further downsizing of unprofitable businesses.**

In August 2024, the share price corrected to a level below ¥500 for the first time in roughly four years. For this to recover, it is necessary to regain trust from the market, which has been lost due to weak performance. Profitability, however, has

been recovering through a bold structural reform. The mainstay DX Business has been deepening ties with existing customers in the financial sector, where the company has its strength. In addition, engineer dispatching and contracting, which the company newly started, have performed well and maintained high operating rates. In the medium to long term, there seem to be a wealth of potential local government DX projects in such fields as hometown tax and frailty prevention.

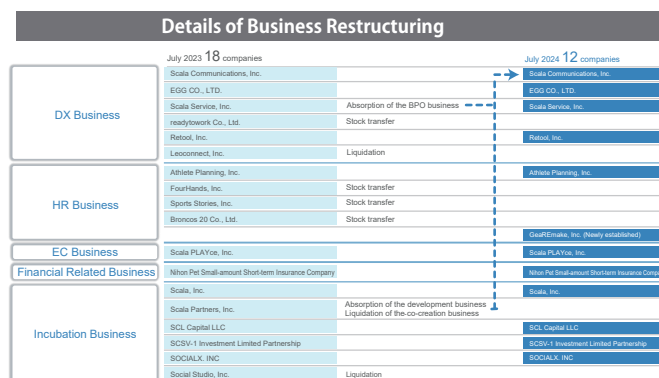
Wealth Advisor (WA) has made a more conservative estimate of Scala's performance for FY06/25 than the company's plan. Based on the outlook for profit increase from FY06/26 onward, our forecast for the company's estimated share price is between ¥620 and ¥720. WA raises the rating from "Neutral" to "Overweight," given that the share price was decreasing until recently and Scala has continued to pay out dividends. (Souta Suzuki)

## Company Overview

Scala, Inc. initiated its business by providing the SaaS/ASP services. The company sees business opportunities in solving problems to enrich society and improve individual lives through DX utilizing IT, AI, and IoT. It excels at co-creating businesses with other companies and actively makes direct and indirect investments in addition to providing services. Scala pursues the DX Business, which offers DX-related services, including i-search, an internal site search engine, and Interactive Voice Response (IVR, a telephone answering system), to major companies, local and national governments, and public offices. The company also conducts the HR Business, which provides specialized support for hiring; the EC Business, which operates an e-commerce site for reusable trading cards; the Financial Related Business, which covers the Nihon Pet Small-amount Short-term Insurance; and the Incubation Business, which carries out M&A and other investment activities and creates new businesses through public-private co-creation to solve social issues.

## Business Environment and Outlook

With the declining birthrate and aging population, the Japanese government aims to ease the population concentration in Tokyo by boosting the population and revitalizing local areas through regional development. As local governments increasingly focus on improving the livability of their residents through their unique measures,



Source: Scala, Inc.'s document

DX initiatives are critical to achieving their goals. Against this backdrop, Scala sees solving social issues as a business opportunity and builds up co-creation projects with local governments through various services developed in-house. In addition to developing multiple businesses such as e-commerce (for trading cards) and pet insurance, whose markets continue to grow, the company also pursues investment business.

### Risk Factors

Scala's potential risks include major customers curbing IT investments due to the economic downturn, delays in development progress and additional costs due to larger and more complex projects, problems with SaaS/ASP services due to server failures, and the risk of loss in the Incubation business.

## Shareholder Return (as of Aug. 30, 2024)

### Dividends

		Dividend Per Share		
		First half	Second half	Annual
2023-6	Past Results	¥18.50	¥18.50	¥37.00
2024-6	Past Results	¥18.75	¥18.75	¥37.50
2025-6	Company est.	¥8.00	¥8.00	¥16.00

### Shareholder Special Benefits

None

**Competitor Comparison** (Bold red figures indicate superiority to competitors) (as of Aug. 30, 2024)

	Scala, Inc. (4845: TSE Prime)	TECHMATRIX CORPORATION (3762: TSE Prime)	Cybozu, Inc. (4776: TSE Prime)	
Basic Point	Stock Price	¥479	¥2,438	¥1,728
	Unit of Investment	100 shares	100 shares	100 shares
	Minimum Investment Amount	¥47,900	¥243,800	¥172,800
Fiscal Year End		June	March	December
Share Price Indicator	P/E Ratio (est.)	<b>24.4 x</b>	25.0 x	27.5 x
	PBR	<b>1.9 x</b>	4.5 x	9.51 x
	Dividend Yield (E)	<b>3.3%</b>	1.2%	0.9%
Growth	Revenue Growth Rate (E)	-5.2%	10.7%	<b>16.2%</b>
	Operating Profit Growth Rate (E)	Turned around to positive	11.1%	<b>21.3%</b>
	EPS Growth Rate (E)	Turned around to positive	10.6%	<b>20.3%</b>
Profitability	Operating Margin (E)	5.5%	11.0%	<b>13.9%</b>
	ROE	—	17.4%	<b>31.3%</b>
	ROA (Ordinary income/Total assets)	—	—	<b>20.4%</b>
Financial Stability	Equity Ratio	34.2%	25.4%	<b>58.5%</b>
	Debt-to-Equity (D/E) Ratio	133.5%	3.1%	<b>0.0%</b>
	Current Ratio	<b>165.2%</b>	136.4%	146.5%

We have chosen TECHMATRIX CORPORATION(3762) and Cybozu, Inc. (4776) as comparable entities.

### ■ Growth

Scala embarked on a large-scale structural reform mainly in the DX Business, and reduced the number of group companies. In FY06/24, the company posted an operating loss of ¥2.16 billion. As the profit structure improves, the company plans an operating profit of ¥550 million for FY06/25. Japanese local governments have strong IT needs, and the company is expanding its customer base through its unique services.

### ■ Profitability

Scala carried out business restructuring in FY06/24. In addition to canceling office leases and streamlining through personnel reduction, the company reduced the number of its group companies from 18 as of July 2023 to 12 as of July 2024, by restructuring their businesses.

### ■ Financial Stability

Scala's equity ratio was 34.2% in FY06/24. Interest-bearing debt decreased to ¥5.790 billion from ¥6.003 billion in the previous fiscal year. Annual dividend forecast for FY06/25 stands at ¥16 per share (¥37.5 per share for the previous fiscal year), with a total dividend distribution of ¥277 million.

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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.