

Turning social challenges into a business opportunity

Scala, Inc. (4845: TSE Prime)

Recommendation rating (mar.6)

Overweight

Stock Price	Unit of Investment	Market Cap	52-Week High	52-Week Low	P/E Ratio (Est.)
¥433 (Mar.6,2025)	100 shares	¥7.69billion (Mar.6,2025)	¥769 (Jan. 23, 2024)	¥352 (Jan. 17, 2025)	22.1 x (Mar.6,2025)

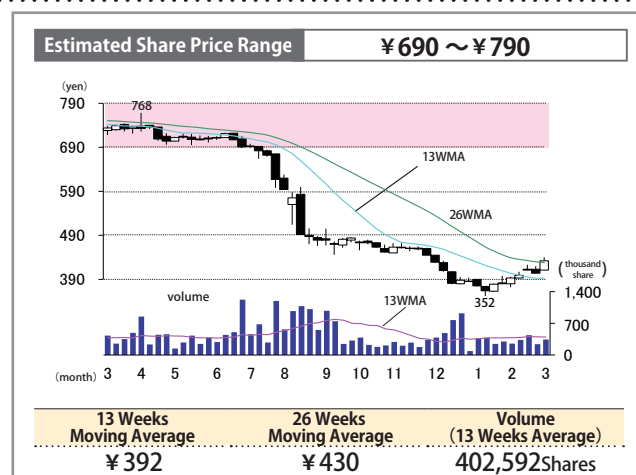
Results of structural reform start to show

■ Quarterly operating profit achieved

Scala, Inc. reported its consolidated business results (IFRS) for the first six months (July to December 2024) of the fiscal year ending June 2025 (FY06/25). In the period under review, sales revenue stood at ¥4,803 million (up 3.9% year-on-year), with an operating profit of ¥264 million (loss of ¥163 million in the same period of the previous fiscal year) on an IFRS basis. **On a quarterly basis, in Q2 (October to December 2024), operating profit stood at ¥294 million (loss of ¥135 million in the same period of the previous fiscal year; loss of ¥35 million in the previous quarter), marking a return to the black after seven quarters.** Performance of the core DX business improved significantly with sales of ¥2,479 million (up 9.5% year-on-year) and operating profit/loss of ¥432 million (loss of ¥106 million in the same period of the previous fiscal year). This clearly reflects the results of the business restructuring carried out in the previous fiscal year. The company's key subsidiary Scala Communications, Inc. delivered large-scale projects for financial institutions, while the "home town tax donation" (furosato nozei) business of EGG CO., LTD. grew. Profitability has improved substantially thanks to lower fixed costs. In other segments, the EC business for trading cards posted a higher operating profit, whereas the HR business saw a decline due to a slow start in Q1 (July to September 2024). The Financial business remains in the red primarily due to its pet insurance. The consolidated earnings forecast for the full fiscal year ending June 2025 remains unchanged. Sales revenue is projected to be ¥10,100 million (down 5.7% year-on-year), with an operating profit of ¥550 million and annual dividend of ¥16 (¥2,155 million and ¥37.5, respectively, in the previous fiscal year).

■ Full-scale growth recovery in sight

In the previous fiscal year, 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 streamlining operations, by canceling office leases, downsizing office space, reducing the number of directors and advisors, and cutting personnel, the company trimmed its group companies from 18 (as of July 2023) to 11 (as of



December 2024), by restructuring its businesses. Total number of employees stands at 428 (as of the end of 2024), down by about 100 since the end of the previous quarter. At the same time, the company is cutting outsourcing costs, making use of the engineer human resources business department launched by Scala Communications, Inc. in April 2023. It also plans to focus on making new mid-career hires to help turn around business performance in the medium term. Scala also plans to withdraw further from unprofitable operations, by offloading its loss-making Nihon Pet Small-amount Short-term Insurance, Inc in the Financial business by the end of March 2025.

As a result of the business restructuring under the new management team, the company is emerging from a period of losses. The focus is now on returning to a solid growth trajectory, powered by its core SaaS and web solution services. Consolidated operating profit is projected to be ¥550 million for the fiscal year ending in June 2025, still far below the recent peak of ¥2,153 million for the fiscal year ended in June 2019. The company is working to expand stock sales (currently less than ¥200 million) by refining its standard SaaS services, while also scrutinizing services that have yet to be monetized and developing new services. The HR business department of Scala Communications, Inc. is also starting to perform well, so it is expected

Financial Results (as of Mar.6,2025)

	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.	10,100	-5.7	550	Loss to profit	540	Loss to profit	340	Loss to profit	19.6
2025-6 WA est.	9,960	-7.0	550	Loss to profit	540	Loss to profit	340	Loss to profit	17.9
2026-6 WA est.	10,950	9.9	850	54.5	800	48.1	550	61.8	31.1

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

to contribute more to the company's bottom line in the years ahead.

In light of the turnaround in Q2, Wealth Advisor (WA) revised its operating profit forecast for Scala for the year ending June 2025 to ¥550 million, up from the previous estimate of ¥500 million. Although the company anticipates a short-term rebound from large-scale projects in its DX business, it expects profitability to rise further in FY06/26. Taking into account its withdrawal from the pet insurance business, it expects operating profit to grow by more than 50% relative to FY06/25. Given all the facts, our forecast for the company's estimated share price is between ¥690 and ¥790. The rating remains "Overweight."

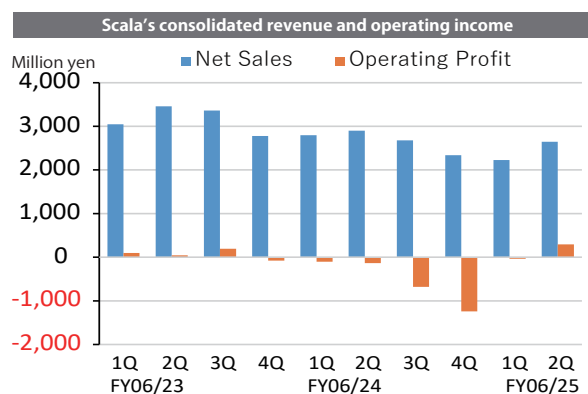
(Souta Suzuki)

Company Overview

Scala, Inc. initiated its business by providing 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, such as providing specialized support for hiring; the EC business, which operates an e-commerce site for reusable trading cards; and the Incubation business, which carries out M&As and other investment activities and creates new businesses through public-private co-creation to solve social issues. Note that the Nihon Pet Small-amount Short-term Insurance, Inc., a financial business, will be sold by the end of March 2025.

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: Created by Wealth Advisor based on company materials

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.

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 Mar.6,2025)

Dividends

		Dividend Per Share		
		First half	Second half	Annual
FY06/23	Past Results	¥18.50	¥18.50	¥37.00
FY06/24	Past Results	¥18.75	¥18.75	¥37.50
FY06/25	Company est.	¥8.00	¥8.00	¥16.00

Shareholder Special Benefits

None

Competitor Comparison (Bold red figures indicate superiority to competitors) (as of Mar.6,2025)

	Scala, Inc. (4845: TSE Prime)	TECHMATRIX CORPORATION (3762: TSE Prime)	Cybozu, Inc. (4776: TSE Prime)	
Basic Point	Stock Price	¥433	¥2,179	¥2,798
	Unit of Investment	100 shares	100 shares	100 shares
	Minimum Investment Amount	¥43,300	¥217,900	¥279,800
Fiscal Year End		June	March	December
Share Price Indicator	P/E Ratio (est.)	22.1 x	21.3 x	21.9 x
	PBR	1.7 x	4.0 x	9.51 x
	Dividend Yield (E)	3.7%	1.5%	1.4%
Growth	Revenue Growth Rate (E)	-5.7%	20.8%	21.3%
	Operating Profit Growth Rate (E)	Turned around to positive	19.7%	72.5%
	EPS Growth Rate (E)	Turned around to positive	15.5%	70.4%
Profitability	Operating Margin (E)	5.4%	10.9%	23.4%
	ROE	—	17.4%	31.1%
	ROA (Ordinary income/Total assets)	—	—	26.5%
Financial Stability	Equity Ratio	34.2%	25.4%	58.5%
	Debt-to-Equity (D/E) Ratio	133.5%	3.1%	0.0%
	Current Ratio	165.2%	136.4%	128.5%

We have chosen TechMatrix (3762) and Cybozu (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 11 as of December 2024, by restructuring their businesses.

■ Financial Stability

Scala's equity ratio was 34.2% in FY06/24. Interest-bearing debt decreased to ¥5,790 million from ¥6,003 million 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.