

February 14, 2020

## Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2020 (Six Months Ended December 31, 2019) [IFRS]

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Scheduled date of filing of Quarterly Report: February 14, 2020  
 Scheduled date of payment of dividend: February 18, 2020  
 Preparation of supplementary materials for quarterly financial results: None  
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)  
 (All amounts are rounded down to the nearest million yen.)

### 1. Management Performance Measures under IFRS

Consolidated Results of Operations (July 1, 2019 – December 31, 2019)

(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                             | %      |
| Six months ended Dec. 31, 2019 | 8,606       | 2.4  | 747              | (34.2) | 734               | (34.8) | 473         | (37.4) | 255                                     | (44.3) |
| Six months ended Dec. 31, 2018 | 8,405       | 43.6 | 1,135            | 38.1   | 1,126             | 38.0   | 756         | 34.1   | 458                                     | 23.1   |

  

|                                | Basic earnings per share |  | Diluted earnings per share |  |
|--------------------------------|--------------------------|--|----------------------------|--|
|                                | Yen                      |  | Yen                        |  |
| Six months ended Dec. 31, 2019 | 14.76                    |  | 14.56                      |  |
| Six months ended Dec. 31, 2018 | 27.08                    |  | 26.55                      |  |

### 2. Management Performance Measures under Non-GAAP Measures

The non-GAAP measures are calculated by deducting non-recurring items and other adjustments, which are prescribed by the Group, from IFRS-based financial figures.

We believe that disclosure of the non-GAAP measures makes it easier for stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group's underlying operating performance and its outlook.

For details of the non-GAAP measures, please refer to "(1) Explanation of Results of Operations" on page 2 of Attachments.

Consolidated Results of Operations (July 1, 2019 – December 31, 2019)

(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                             | %      |
| Six months ended Dec. 31, 2019 | 8,606       | 2.4  | 828              | (27.0) | 815               | (27.5) | 554         | (26.7) | 336                                     | (26.6) |
| Six months ended Dec. 31, 2018 | 8,405       | 43.6 | 1,135            | 38.1   | 1,126             | 38.0   | 756         | 34.1   | 458                                     | 23.1   |

Note: Expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs, expenses on procurement of equipment and supplies and those on rebranding implemented on the occasion of the relocation) of 81 million yen were deducted from the line items below operating profit in the six months ended December 31, 2019.

|                                | Basic earnings per share |  | Diluted earnings per share |  |
|--------------------------------|--------------------------|--|----------------------------|--|
|                                | Yen                      |  | Yen                        |  |
| Six months ended Dec. 31, 2019 | 19.45                    |  | 19.19                      |  |
| Six months ended Dec. 31, 2018 | 27.08                    |  | 26.55                      |  |

### 3. Dividends

|  | Dividend per share |        |        |          |       |
|--|--------------------|--------|--------|----------|-------|
|  | 1Q-end             | 2Q-end | 3Q-end | Year-end | Total |
|  | Yen                |        |        |          |       |
| Fiscal year ended Jun. 30, 2019              | -                  | 12.00  | -      | 12.00    | 24.00 |
| Fiscal year ending Jun. 30, 2020             | -                  | 14.00  |        |          |       |
| Fiscal year ending Jun. 30, 2020 (forecasts) |                    |        | -      | 14.00    | 28.00 |

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

#### 4. 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 Dec. 31, 2019 | 22,917       | 10,362       | 7,549                                   | 32.9   | 431.23  |
| As of Jun. 30, 2019 | 18,694       | 9,608        | 7,010                                   | 37.5   | 413.08  |

#### \* 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: Yes
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting estimates: None

Note: For more information, please refer to “Notes to Condensed Quarterly Consolidated Financial Statements, 3. Significant Accounting Policies” on page 12 of Attachments.

(3) Number of shares outstanding (common shares)

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

|                      |                   |                      |                   |
|----------------------|-------------------|----------------------|-------------------|
| As of Dec. 31, 2019: | 17,506,959 shares | As of Jun. 30, 2019: | 16,971,659 shares |
|----------------------|-------------------|----------------------|-------------------|
- 2) Number of treasury shares as of the end of the period
 

|                      |          |                      |          |
|----------------------|----------|----------------------|----------|
| As of Dec. 31, 2019: | 8 shares | As of Jun. 30, 2019: | 8 shares |
|----------------------|----------|----------------------|----------|
- 3) Average number of outstanding shares during the period
 

|                                 |                   |                                 |                   |
|---------------------------------|-------------------|---------------------------------|-------------------|
| Six months ended Dec. 31, 2019: | 17,295,843 shares | Six months ended Dec. 31, 2018: | 16,922,940 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

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.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

Scala, Inc. and its group companies (“the Group”) have adopted International Financial Reporting Standards (IFRS).

In addition to IFRS, the Group has adopted financial measures that can express its operating performance more accurately (“the non-GAAP measures”), and accordingly has disclosed its consolidated results of operations by applying both IFRS and the non-GAAP measures.

### (1) Explanation of Results of Operations

The Group has sought to enhance its corporate value by devoting more human resources to growth areas, expanding business through M&A, developing new businesses as well as making more efficient use of corporate resources in the existing businesses in accordance with the medium-term business plan.

As a result, the Group reported revenue of 8,606 million yen (up 2.4% year-on-year) for the first half of the fiscal year ending June 30, 2020 (“the period under review”).

At the profit level, due to active investment for development of various new businesses in the future, the Group reported a temporary decrease in profits with operating profit of 747 million yen (down 34.2% year-on-year), profit before tax of 734 million yen (down 34.8% year-on-year), profit of 473 million yen (down 37.4% year-on-year) and profit attributable to owners of parent of 255 million yen (down 44.3% year-on-year).

In addition, in order to realize the medium-term business plan, the Group has currently been actively pushing forward initiatives for various new businesses including: preparation for the establishment of a value co-creation engagement fund in the “value co-creation management support business” domain; proposals on digital transformation (DX) for large enterprises in the “IT/AI/IoT-related business” domain; and employment promotion in developing countries (enhancement of offshore development bases) and support for the development of HR Tech to promote the employment of the disabled in the “social problem-solving business” domain.

(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 stakeholders to make both cross-sectional and time-series comparisons, and can also provide useful information that helps stakeholders to understand the Group’s underlying operating performance and its outlook.

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 the first half of the previous fiscal year, no adjustments were made to calculate the non-GAAP measures.

During the period under review, adjustments were made to calculate the non-GAAP measures for expenses incurred on the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation).

Business segment performance was as follows.

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

#### (i) SaaS/ASP Business

In this business segment, the segment revenue increased cumulatively as a result of adopting a recurring income business model that seeks to enhance the Group’s credibility and technical capabilities by flexibly responding to the needs of customers based on software reusable by multiple companies, and thereby leads to solid performance.

During the period under review, the number of customers who used the Group's services, including services to address customers' issues and needs as well as our mainstay products "i-ask" and "i-assist," again steadily increased.

Specifically, we developed the out-of-the-box "one-click car insurance quote system" for E.design Insurance Co., Ltd. under the Tokio Marine Group. The system was developed in response to the voice of customers who want to know approximate quote first, instead of conventional systems that used to require about 30 clicks to accurately calculate car insurance premiums. The system won the Good Design Award at the "Good Design Award 2019" hosted by Japan Institute of Design Promotion. It was the first time for internet car insurance companies to win the said award. Also, Sompo Japan Nipponkoa Insurance Inc. has adopted our system to receive a request to cancel special fire insurance policies using automated "interactive voice response (IVR)" technology. The Group's IVR service can efficiently handle customers' request to cancel their insurance policy, which was conventionally responded directly by call operators, leading to the reduction in man hours. It also helps further improve operational efficiency by linking response data with Salesforce using the API.

Moreover, the "i-assist," a chat bot service to automatically answer to texts entered by users on the website, has been adopted by Kobe City together with the "i-ask," a service used as a tool for "Frequently Asked Questions" on websites and internal information-sharing management. Synergistic effects can be expected by adopting these services at the same time, and they have contributed to enhancing the convenience for residents of the city.

Furthermore, our subsidiary Connect Agency Inc. has been working on to make its service compatible with softphone, which is in high demand by many customers. Accordingly, its service is expected to be adopted more toward the third and fourth quarters of the current fiscal year. We aim to further improve service functions as the compatibility with softphone enables a link with "C7," a newly developed, cloud-based mission-critical system.

Our subsidiary Leoconnect, Inc. has done well in cross-selling its services with those of another subsidiary Scala Communications, Inc. Their services have already been adopted by 12 companies.

As a result, the segment revenue was 2,051 million yen (up 11.2% year-on-year).

At the profit level, operating profit was 169 million yen (down 46.4% year-on-year) due to active up-front investment for development of various new businesses in securing human resources to set up new businesses; promoting the recruitment of young talent with high entrepreneurship as well as communications with ventures with young entrepreneurs; and relocating the head office including the branding of the Group.

Operating profit under the non-GAAP measures was 251 million yen (down 20.8% year-on-year) after adjustment of one-time charges for the relocation of the head office (consisting of a change in the depreciation period of facilities attached to buildings, expenses on replacement of PCs and those on rebranding implemented on the occasion of the relocation).

#### (ii) SFA Business

In this business segment, the Group continued efforts to win new customers by organizing seminars and other events and to encourage the existing customers to more use our services by strengthening group training programs for users as well as providing the existing services to support effective use of our products. The Group also continued development programs focused on ease of use for the CRM/SFA software "e-Sales Manager," a mainstay product for the Group, and the self-serve software "e-Sales Manager Remix MS."

As a result, the segment revenue was 2,510 million yen (up 3.6% year-on-year) thanks to strong sales of CRM/SFA software "e-Sales Manager," a mainstay product for the Group, especially of the cloud-based version. In terms of profitability, operating profit was 378 million yen (down 26.7% year-on-year), mainly due to an increase in up-front expenses, including expenses for development for further growth and personnel expenses.

#### (iii) Field Marketing Business

In this business segment, the Group has made active efforts to better understand the needs of users, identify projects and offer new proposals by engaging in continuing business activities for especially major consumer goods manufacturers. The Group has also promoted efforts to tap new markets based on the concept of Field Cloud Sourcing, which serves a wider range of business sectors and operations.

As a result, the segment revenue was 2,102 million yen (up 7.4% year-on-year) thanks to an increase in sales mainly due to strong performance of the Group's mainstay services such as the regular field business and the human resources dispatching business. On the other hand, however, operating profit was 131 million yen (down 7.5% year-on-year).

#### (iv) Customer Support Business

In this business segment, the Group has made certain achievements in the proposal for consulting on the introduction of Scala Communications' SaaS/ASP service, orders received for and adoption of the service, in addition to continuing to be entrusted with providing new customer support consulting services to the Hikari Tsushin group companies. The Group has also worked on the improvement of operational efficiency by, among other things, reducing the scale of unprofitable projects. As a result, while the segment revenue was 1,103 million yen (down 17.7% year-on-year), operating profit was 28 million yen (up 8.5% year-on-year).

#### (v) Other Businesses

In the EC business, plube Inc. (the company changed its trade name to Scala PLAYce Inc. as of January 27, 2020) operates an e-commerce site for buying and selling battle game trading cards. The EC business recorded revenue of 488 million yen (up 18.2% year-on-year) and operating profit of 41 million yen (down 3.7% year-on-year) for the period under review.

The system development business experienced a decline in profitability in some projects mainly due to the incurrence of additional development expenses in spite of strong sales thanks to an increase in sales to existing users. Consequently, the system development business recorded revenue of 222 million yen (up 0.1% year-on-year) and operating profit of 4 million yen (down 74.9% year-on-year).

In the publishing business, revenue decreased to 123 million yen (down 39.6% year-on-year) against a backdrop of a reduction in sales of books. Operating profit was 24 million yen (down 65.8% year-on-year) due to the decrease in revenue that could not be covered by the Group's cost saving efforts.

Overall, operating profit of the other businesses segment as a whole was 38 million yen (down 70.9% year-on-year), reflecting up-front investment cost for other new businesses.

## (2) Explanation of Financial Position

### Assets

Total assets amounted to 22,917 million yen at the end of the period under review, an increase of 4,222 million yen over the end of the previous fiscal year. This was mainly due to increases of 770 million yen in cash and cash equivalents, 582 million yen in trade and other receivables and 2,120 million yen in right-of-use assets arising from the adoption of IFRS 16.

### Liabilities

Liabilities totaled 12,554 million yen, an increase of 3,468 million yen over the end of the previous fiscal year. This was mainly due to increases of 1,591 million yen in bonds and borrowings under current liabilities, 403 million yen in lease obligations arising from the adoption of IFRS 16 under current liabilities and 1,763 million yen in lease obligations arising from the adoption of IFRS 16 under non-current liabilities.

### Equity

Equity totaled 10,362 million yen, an increase of 754 million yen over the end of the previous fiscal year. This was mainly due to an increase of 95 million yen in share capital through exercise of share acquisition rights, an increase of 309 million yen in capital surplus mainly through exercise of share acquisition rights and share exchanges, profit attributable to owners of parent of 255 million yen, profit attributable to non-controlling interests of 218 million yen, and a decrease of 203 million yen in retained earnings due to dividend payments.

## (3) Management Policy and Strategy

During the period under review, there was no material change in the management policy and strategy formulated by the Group.

**2. Condensed Quarterly Consolidated Financial Statements and Notes****(1) Condensed Quarterly Consolidated Statement of Financial Position**

(Thousands of yen)

|   | FY6/19<br>(As of Jun. 30, 2019) | Second quarter of FY6/20<br>(As of Dec. 31, 2019) |
|---|---------------------------------|---|
| <b>Assets</b>                                 |                                 |   |
| Current assets                                |                                 |   |
| Cash and cash equivalents                     | 6,393,530                       | 7,163,936   |
| Trade and other receivables                   | 3,251,866                       | 3,834,705   |
| Inventories                                   | 175,097                         | 194,717   |
| Other current assets                          | 345,443                         | 382,540   |
| Total current assets                          | 10,165,937                      | 11,575,900  |
| Non-current assets                            |                                 |   |
| Property, plant and equipment                 | 471,845                         | 624,191   |
| Right-of-use asset                            | -                               | 2,120,275   |
| Goodwill                                      | 6,192,006                       | 6,394,703   |
| Intangible assets                             | 1,034,527                       | 1,105,218   |
| Other financial assets                        | 774,930                         | 1,067,325   |
| Deferred tax assets                           | 45,953                          | 22,104  |
| Other non-current assets                      | 9,741                           | 7,828   |
| Total non-current assets                      | 8,529,005                       | 11,341,647  |
| Total assets                                  | 18,694,943                      | 22,917,548  |
| <b>Liabilities and equity</b>                 |                                 |   |
| Liabilities                                   |                                 |   |
| Current liabilities                           |                                 |   |
| Trade and other payables                      | 2,119,119                       | 1,923,761   |
| Bonds and borrowings                          | 1,974,211                       | 3,565,266   |
| Lease obligations                             | 478                             | 403,590   |
| Income taxes payable                          | 377,295                         | 273,206   |
| Other current liabilities                     | 513,640                         | 505,410   |
| Total current liabilities                     | 4,984,745                       | 6,671,234   |
| Non-current liabilities                       |                                 |   |
| Bonds and borrowings                          | 4,004,387                       | 3,937,267   |
| Lease obligations                             | 12,283                          | 1,776,905   |
| Deferred tax liabilities                      | 54,779                          | 31,240  |
| Other non-current liabilities                 | 30,476                          | 138,126   |
| Total non-current liabilities                 | 4,101,927                       | 5,883,539   |
| Total liabilities                             | 9,086,672                       | 12,554,773  |
| Equity  |                                 |   |
| Equity attributable to owners of parent       |                                 |   |
| Share capital                                 | 1,607,988                       | 1,720,501   |
| Capital surplus                               | 556,277                         | 882,681   |
| Retained earnings                             | 4,762,540                       | 4,814,132   |
| Treasury shares                               | (9)                             | (9)   |
| Other components of equity                    | 83,796                          | 132,255   |
| Total equity attributable to owners of parent | 7,010,593                       | 7,549,561   |
| Non-controlling interests                     | 2,597,677                       | 2,813,213   |
| Total equity                                  | 9,608,270                       | 10,362,774  |
| Total liabilities and equity                  | 18,694,943                      | 22,917,548  |

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

(Thousands of yen)

|  | First six months of FY6/19<br>(Jul. 1, 2018 – Dec. 31, 2018) | First six months of FY6/20<br>(Jul. 1, 2019 – Dec. 31, 2019) |
|--|--|--|
| Revenue                                      | 8,405,718  | 8,606,484  |
| Cost of sales                                | (5,289,150)  | (5,476,693)  |
| Gross profit                                 | 3,116,567  | 3,129,791  |
| Selling, general and administrative expenses | (1,983,461)  | (2,371,547)  |
| Other income                                 | 11,036   | 4,524  |
| Other expenses                               | (8,505)  | (15,405)   |
| Operating profit                             | 1,135,637  | 747,361  |
| Finance income                               | 5,026  | 5,579  |
| Finance costs                                | (14,583)   | (18,221)   |
| Profit before tax                            | 1,126,079  | 734,719  |
| Income tax expense                           | (369,813)  | (261,215)  |
| Profit                                       | 756,266  | 473,504  |
| Profit attributable to                       |  |  |
| Owners of parent                             | 458,300  | 255,252  |
| Non-controlling interests                    | 297,965  | 218,252  |
| Profit                                       | 756,266  | 473,504  |
| Earnings per share                           |  |  |
| Basic earnings per share (Yen)               | 27.08  | 14.76  |
| Diluted earnings per share (Yen)             | 26.55  | 14.56  |



**Condensed Quarterly Consolidated Statement of Comprehensive Income**

(Thousands of yen)

|   | First six months of FY6/19<br>(Jul. 1, 2018 – Dec. 31, 2018) | First six months of FY6/20<br>(Jul. 1, 2019 – Dec. 31, 2019) |
|---|--|--|
| Profit  | 756,266  | 473,504  |
| Other comprehensive income  |  |  |
| Items that will not be reclassified to profit or loss                         |  |  |
| Financial assets measured at fair value through<br>other comprehensive income | (40,502)   | 49,655   |
| Total other comprehensive income, net of tax                                  | (40,502)   | 49,655   |
| Comprehensive income  | 715,763  | 523,159  |
| Comprehensive income attributable to  |  |  |
| Owners of parent  | 417,816  | 305,064  |
| Non-controlling interests   | 297,947  | 218,094  |
| Comprehensive income  | 715,763  | 523,159  |

**(3) Condensed Quarterly Consolidated Statement of Changes in Equity**

First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)

(Thousands of yen)

|   | Equity attributable to owners of parent |                 |                   |                 |                            |   |
|---|---|-----------------|-------------------|-----------------|----------------------------|---|
|   | Share capital                           | Capital surplus | Retained earnings | Treasury shares | Other components of equity | Total equity attributable to owners of parent |
| Balance as of Jul. 1, 2018                            | 1,594,118                               | 573,917         | 4,182,249         | -               | 98,628                     | 6,448,913                                     |
| Cumulative effect of accounting change                | -                                       | -               | 6,600             | -               | -                          | 6,600   |
| Restated balance                                      | 1,594,118                               | 573,917         | 4,188,849         | -               | 98,628                     | 6,455,513                                     |
| Profit  | -                                       | -               | 458,300           | -               | -                          | 458,300                                       |
| Total other comprehensive income                      | -                                       | -               | -                 | -               | (40,483)                   | (40,483)                                      |
| Comprehensive income                                  | -                                       | -               | 458,300           | -               | (40,483)                   | 417,816                                       |
| Increase (decrease) by business combination           | -                                       | -               | -                 | -               | -                          | -   |
| Share-based remuneration transactions                 | -                                       | -               | -                 | -               | -                          | -   |
| Share-based remuneration transactions of subsidiaries | -                                       | -               | -                 | -               | -                          | -   |
| Dividends   | -                                       | -               | (169,171)         | -               | -                          | (169,171)                                     |
| Purchase of treasury shares                           | -                                       | -               | -                 | (9)             | -                          | (9)   |
| Issuance of share acquisition rights                  | -                                       | -               | -                 | -               | 1,983                      | 1,983   |
| Exercise of share acquisition rights                  | 6,286                                   | 6,286           | -                 | -               | (172)                      | 12,399  |
| Acquisition and disposal of non-controlling interests | -                                       | (326)           | -                 | -               | -                          | (326)   |
| Total transactions with owners                        | 6,286                                   | 5,959           | (169,171)         | (9)             | 1,810                      | (155,124)                                     |
| Balance as of Dec. 31, 2018                           | 1,600,404                               | 579,876         | 4,477,978         | (9)             | 59,955                     | 6,718,205                                     |

|   | Non-controlling interests | Total equity |
|---|---------------------------|--------------|
| Balance as of Jul. 1, 2018                            | 2,196,533                 | 8,645,446    |
| Cumulative effect of accounting change                | -                         | 6,600        |
| Restated balance                                      | 2,196,533                 | 8,652,046    |
| Profit  | 297,965                   | 756,266      |
| Total other comprehensive income                      | (18)                      | (40,502)     |
| Comprehensive income                                  | 297,947                   | 715,763      |
| Increase (decrease) by business combination           | 27,909                    | 27,909       |
| Share-based remuneration transactions                 | -                         | -            |
| Share-based remuneration transactions of subsidiaries | (1,305)                   | (1,305)      |
| Dividends   | -                         | (169,171)    |
| Purchase of treasury shares                           | -                         | (9)          |
| Issuance of share acquisition rights                  | -                         | 1,983        |
| Exercise of share acquisition rights                  | -                         | 12,399       |
| Acquisition and disposal of non-controlling interests | 1,631                     | 1,305        |
| Total transactions with owners                        | 28,235                    | (126,888)    |
| Balance as of Dec. 31, 2018                           | 2,522,716                 | 9,240,922    |

First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)

(Thousands of yen)

|   | Equity attributable to owners of parent |                 |                   |                 |                            |   |
|---|---|-----------------|-------------------|-----------------|----------------------------|---|
|   | Share capital                           | Capital surplus | Retained earnings | Treasury shares | Other components of equity | Total equity attributable to owners of parent |
| Balance as of Jul. 1, 2019                            | 1,607,988                               | 556,277         | 4,762,540         | (9)             | 83,796                     | 7,010,593                                     |
| Profit  | -                                       | -               | 255,252           | -               | -                          | 255,252                                       |
| Total other comprehensive income                      | -                                       | -               | -                 | -               | 49,812                     | 49,812  |
| Comprehensive income                                  | -                                       | -               | 255,252           | -               | 49,812                     | 305,064                                       |
| Increase (decrease) by business combination           | -                                       | -               | -                 | -               | -                          | -   |
| Share-based remuneration transactions                 | -                                       | 8,500           | -                 | -               | -                          | 8,500   |
| Share-based remuneration transactions of subsidiaries | -                                       | -               | -                 | -               | -                          | -   |
| Dividends   | -                                       | -               | (203,659)         | -               | -                          | (203,659)                                     |
| Issuance of new shares                                | 17,000                                  | 222,364         | -                 | -               | -                          | 239,364                                       |
| Issuance of share acquisition rights                  | -                                       | -               | -                 | -               | 629                        | 629   |
| Exercise of share acquisition rights                  | 95,513                                  | 95,513          | -                 | -               | (1,983)                    | 189,043                                       |
| Acquisition and disposal of non-controlling interests | -                                       | 25              | -                 | -               | -                          | 25  |
| Total transactions with owners                        | 112,513                                 | 326,404         | (203,659)         | -               | (1,353)                    | 233,903                                       |
| Balance as of Dec. 31, 2019                           | 1,720,501                               | 882,681         | 4,814,132         | (9)             | 132,255                    | 7,549,561                                     |

|   | Non-controlling interests | Total equity |
|---|---------------------------|--------------|
| Balance as of Jul. 1, 2019                            | 2,597,677                 | 9,608,270    |
| Profit  | 218,252                   | 473,504      |
| Total other comprehensive income                      | (157)                     | 49,655       |
| Comprehensive income                                  | 218,094                   | 523,159      |
| Increase (decrease) by business combination           | -                         | -            |
| Share-based remuneration transactions                 | -                         | 8,500        |
| Share-based remuneration transactions of subsidiaries | (1,958)                   | (1,958)      |
| Dividends   | -                         | (203,659)    |
| Issuance of new shares                                | -                         | 239,364      |
| Issuance of share acquisition rights                  | -                         | 629          |
| Exercise of share acquisition rights                  | -                         | 189,043      |
| Acquisition and disposal of non-controlling interests | (600)                     | (574)        |
| Total transactions with owners                        | (2,558)                   | 231,344      |
| Balance as of Dec. 31, 2019                           | 2,813,213                 | 10,362,774   |

**(4) Condensed Quarterly Consolidated Statement of Cash Flows**

(Thousands of yen)

|   | First six months of FY6/19<br>(Jul. 1, 2018 – Dec. 31, 2018) | First six months of FY6/20<br>(Jul. 1, 2019 – Dec. 31, 2019) |
|---|--|--|
| <b>Cash flows from operating activities</b>                       |  |  |
| Profit before tax   | 1,126,079  | 734,719  |
| Depreciation and amortization                                     | 212,048  | 425,173  |
| Loss on retirement of fixed assets                                | 11,188   | 1,679  |
| Finance income  | (5,026)  | (5,579)  |
| Finance costs   | 14,304   | 17,649   |
| Decrease (increase) in trade and other receivables                | (241,230)  | (17,766)   |
| Increase (decrease) in trade and other payables                   | (72,929)   | (141,901)  |
| Decrease (increase) in inventories                                | (29,327)   | (21,296)   |
| Other   | 43,637   | (33,890)   |
| Subtotal  | 1,058,744  | 958,786  |
| Interest and dividends received                                   | 7,035  | 5,477  |
| Interest paid   | (10,486)   | (14,845)   |
| Income taxes refund (paid)  | (197,845)  | (387,677)  |
| Net cash provided by (used in) operating activities               | 857,448  | 561,741  |
| <b>Cash flows from investing activities</b>                       |  |  |
| Purchase of property, plant and equipment                         | (104,331)  | (188,347)  |
| Purchase of intangible assets                                     | (164,312)  | (236,845)  |
| Purchase of investment securities                                 | -  | (42,420)   |
| Payments for acquisition of subsidiaries                          | (342,959)  | -  |
| Payments for loans receivable                                     | (1,340)  | (500,460)  |
| Payments of leasehold deposits and guarantee deposits             | (12,791)   | (241,512)  |
| Proceeds from refund of leasehold deposits and guarantee deposits | 647  | 8,490  |
| Other   | 293  | 214  |
| Net cash provided by (used in) investing activities               | (624,793)  | (1,200,880)  |
| <b>Cash flows from financing activities</b>                       |  |  |
| Net increase (decrease) in short-term borrowings                  | 1,533,332  | 1,423,333  |
| Proceeds from long-term borrowings                                | 433,500  | 1,062,000  |
| Repayments of long-term borrowings                                | (728,549)  | (753,174)  |
| Redemption of bonds   | (216,000)  | (220,000)  |
| Repayments of lease liabilities                                   | (4,964)  | (98,435)   |
| Dividends paid  | (172,940)  | (204,298)  |
| Proceeds from exercise of share acquisition rights                | 12,399   | 189,043  |
| Proceeds from issuance of share acquisition rights                | 1,983  | 629  |
| Purchase of treasury shares                                       | (9)  | -  |
| Other   | (139)  | (1,060)  |
| Net cash provided by (used in) financing activities               | 858,610  | 1,398,036  |
| Effect of exchange rate changes on cash and cash equivalents      | 1,174  | (169)  |
| Net increase (decrease) in cash and cash equivalents              | 1,092,440  | 758,728  |
| Cash and cash equivalents at beginning of period                  | 4,950,509  | 6,393,530  |
| Increase in cash and cash equivalents by share exchanges          | -  | 11,677   |
| Cash and cash equivalents at end of period                        | 6,042,950  | 7,163,936  |

## (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 condensed quarterly consolidated financial statements for the six months ended December 31, 2019 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the "i-search" and "i-ask" brands; the sales support system branded "e-Sales Manager" and marketing support services including field activities at retail stores; and customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.

#### 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 February 14, 2020.

##### (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.

##### (4) Reclassifications

(Condensed quarterly consolidated statement of financial position)

From the first quarter of the current fiscal year, "Lease obligations" included in "Other current liabilities" (current) and "Lease obligations" included in "Other non-current liabilities" (non-current) in the previous fiscal year has been presented as separate line items due to an increase in their monetary materiality. To reflect this change in the presentation method, the consolidated financial statements for the previous fiscal year have been reclassified.

Consequently, in the consolidated statement of financial position for the previous fiscal year, "Other current liabilities" (current) of 514,119 thousand yen has been reclassified into "Lease obligations" (current) of 478 thousand yen and "Other current liabilities" (current) of 513,640 thousand yen; and "Other non-current liabilities" (non-current) of 42,760 thousand yen into "Lease obligations" (non-current) of 12,283 thousand yen and "Other non-current liabilities" (non-current) of 30,476 thousand yen.

### 3. Significant Accounting Policies

#### (Changes in 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 except the following items.

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

The Group has adopted the following standard starting from the first quarter of the current fiscal year.

| IFRS   | Description of new and amended standards      |
|--|---|
| IFRS 16 <i>Leases</i> (issued in January 2016) | Amendments to accounting treatment for leases |

The Group has applied IFRS 16 by using the modified retrospective approach, under which the comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognized at the date of initial application (July 1, 2019). In transitioning to IFRS 16, the Group has elected to apply the practical expedient provided in IFRS 16 paragraph C3 and maintained its assessment of whether a contract contains a lease under IAS 17 *Leases* (“IAS 17”) and IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

The Group recognized lease obligations at the date of initial application of IFRS 16 for leases that it previously classified as operating leases under IAS 17. The lease obligations are measured at the present value of outstanding lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average of the lessee’s incremental borrowing rates applied to the lease obligations recognized on the consolidated statement of financial position at the date of initial application is 0.3%.

The following table shows reconciliation of the obligations for operating lease contracts under IAS 17 at the end of the previous fiscal year and the lease obligations recognized on the consolidated statement of financial position at the date of initial application.

(Thousands of yen)

|  | Amount   |
|--|----------|
| Operating lease contracts disclosed as of June 30, 2019  | 48,941   |
| Operating lease contracts disclosed as of June 30, 2019 (discounted at the incremental borrowing rate) | 48,911   |
| Finance lease obligations (as of June 30, 2019)  | 12,762   |
| Amount accounted for as short-term leases  | (44,511) |
| Cancellable operating lease contracts  | 516,871  |
| Lease obligations as of July 1, 2019   | 534,034  |

There is no impact of applying IFRS 16 on the beginning balance of retained earnings.

In applying IFRS 16, the Group used the following practical expedients:

- A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics,
- A lessee may rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review,
- A lessee may account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases,
- A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application, and
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

#### 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.

The SaaS/ASP business provides SaaS/ASP services supporting communications between corporations and individuals mainly by using the "i-search" and "i-ask" brands.

The SFA business sells licenses for sales support systems and provides cloud services, customized development, sales consulting, sales skill training, business process consulting utilizing iPads and other devices, and education services.

The field marketing business provides marketing support services including field activities and market research.

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.

##### (2) Information related to revenue and profit or loss and other items for each reportable segment

First six months of FY6/19 (Jul. 1, 2018 – Dec. 31, 2018)

(Thousands of yen)

|                                   | Reportable segment   |                 |                                |                                 |           | Other<br>(Note 1) | Adjustments<br>(Note 2) | Amounts<br>shown on<br>condensed<br>quarterly<br>consolidated<br>financial<br>statements<br>(Note 3) |
|-----------------------------------|----------------------|-----------------|--------------------------------|---------------------------------|-----------|-------------------|-------------------------|--|
|                                   | SaaS/ASP<br>Business | SFA<br>Business | Field<br>Marketing<br>Business | Customer<br>Support<br>Business | Subtotal  |                   |                         |  |
| Revenue                           |                      |                 |                                |                                 |           |                   |                         |  |
| Sales to external customers       | 1,844,218            | 2,423,332       | 1,956,549                      | 1,340,902                       | 7,565,002 | 840,715           | -                       | 8,405,718  |
| Inter-segment sales and transfers | 18,973               | 17,397          | 1,257                          | 3,493                           | 41,120    | 20,326            | (61,447)                | -  |
| Total                             | 1,863,191            | 2,440,729       | 1,957,806                      | 1,344,395                       | 7,606,123 | 861,041           | (61,447)                | 8,405,718  |
| Operating profit (loss)           | 317,039              | 516,637         | 141,927                        | 26,350                          | 1,001,955 | 133,299           | 382                     | 1,135,637  |
| Finance income                    |                      |                 |                                |                                 |           |                   |                         | 5,026  |
| Finance costs                     |                      |                 |                                |                                 |           |                   |                         | (14,583)   |
| Profit before tax                 |                      |                 |                                |                                 |           |                   |                         | 1,126,079  |

- Notes: 1. The "Other" segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the system development business and the publishing business.
2. The 382 thousand yen adjustment to operating profit includes adjustment of non-current assets of 198 thousand yen and inventory adjustments of 184 thousand yen.
3. Operating profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

| First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019) |                    |              |                          |                           |           |          |          | (Thousands of yen) |   |
|---|--------------------|--------------|--------------------------|---------------------------|-----------|----------|----------|--------------------|---|
|   | Reportable segment |              |                          |                           |           |          | Other    | Adjustments        | Amounts shown on condensed quarterly consolidated financial statements (Note 3) |
|   | SaaS/ASP Business  | SFA Business | Field Marketing Business | Customer Support Business | Subtotal  | (Note 1) | (Note 2) |                    |   |
| Revenue   |                    |              |                          |                           |           |          |          |                    |   |
| Sales to external customers                               | 2,051,569          | 2,510,955    | 2,102,225                | 1,103,862                 | 7,768,612 | 837,872  | -        | 8,606,484          |   |
| Inter-segment sales and transfers                         | 32,127             | 18,193       | 966                      | 13,169                    | 64,456    | 10,779   | (75,236) | -                  |   |
| Total   | 2,083,697          | 2,529,148    | 2,103,191                | 1,117,031                 | 7,833,068 | 848,652  | (75,236) | 8,606,484          |   |
| Operating profit (loss)                                   | 169,838            | 378,735      | 131,293                  | 28,588                    | 708,455   | 38,766   | 140      | 747,361            |   |
| Finance income  |                    |              |                          |                           |           |          |          | 5,579              |   |
| Finance costs   |                    |              |                          |                           |           |          |          | (18,221)           |   |
| Profit before tax   |                    |              |                          |                           |           |          |          | 734,719            |   |

- Notes: 1. The “Other” segment consists of activities that are not included in any of the reportable segments, and includes the EC business, the investment business, the corporate consulting business, the system development business and the publishing business.
2. The 140 thousand yen adjustment to operating profit includes adjustment of non-current assets of 96 thousand yen and inventory adjustments of 44 thousand yen.
3. Operating profit (loss) is adjusted to be consistent with profit before tax recorded in the condensed quarterly consolidated statement of income.
4. Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

### 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.*