February 14, 2022

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2022 (Six Months Ended December 31, 2021) [IFRS]

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Scheduled date of filing of Quarterly Report: February 14, 2022
Scheduled date of payment of dividend: February 21, 2022
Preparation of supplementary materials for quarterly financial results: Yes
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

(1) Consolidated Results of Operations (July 1, 2021 – December 31, 2021)

(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, 2021	4,268	(0.4)	(79)	-	(88)	-	(91)	-	(72)	-
Six months ended Dec. 31, 2020	4,285	17.5	25	(87.8)	7	(96.2)	258	(45.3)	137	(45.9)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Dec. 31, 2021	(4.09)	(4.09)
Six months ended Dec. 31, 2020	7.87	7.80

Note: In the second quarter of the fiscal year ended June 30, 2021, the businesses that Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. and its subsidiaries operate are classified as a discontinued operation.
The transfer of all shares of SOFTBRAIN held by Scala was complete in the third quarter.
Accordingly, revenue, operating profit, and profit before tax in the six months ended December 31, 2020 present the amounts of those from continuing operations.
For details of the discontinued operations, please refer to "2. Condensed Quarterly Consolidated Financial Statements and Notes, (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations)" on page 16 of Attachments.

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. Qualitative Information on Quarterly Consolidated Financial Performance, (1) Explanation of Results of Operations" on page 2 of Attachments.

(1) Consolidated Results of Operations (July 1, 2021 – December 31, 2021)

(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, 2021	4,268	(0.4)	63	(24.5)	54	(18.3)	38	48.8	58	162.4
Six months ended Dec. 31, 2020	4,285	17.5	84	(70.9)	66	(76.2)	26	(85.5)	22	(86.6)

Notes: 1. For adjustment, profit or loss on securities related to investment business were deducted from operating profit and the items below it, and profit from discontinued operations was deducted from profit and the items below it.
2. In addition to the above Note 1, expenses incurred on the transfer of common shares of SOFTBRAIN Co., Ltd., Scala's consolidated subsidiary (consisting of financial advisory fees and legal fees) and expenses incurred on relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.) of 42 million yen were deducted from the line items below operating profit for the six months ended December 31, 2020.
3. In addition to the above Note 1, expenses associated with merger and acquisition and expenses incurred on the relocation of the head office of Scala's subsidiary of 74 million yen were deducted from the line items below operating profit for the six months ended December 31, 2021.

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Dec. 31, 2021	3.30	3.28
Six months ended Dec. 31, 2020	10.49	10.39

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	16.00	-	18.00	34.00
Fiscal year ending Jun. 30, 2022	-	18.00			
Fiscal year ending Jun. 30, 2022 (forecasts)			-	18.00	36.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 under IFRS (July 1, 2021 – June 30, 2022)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	-	-	-	-	-	-	-	-	-	-	-

Notes: 1. Revisions to the most recently announced consolidated forecast: Yes

2. The Group has changed its consolidated forecast for the fiscal year ending June 30, 2022 to undetermined as announced in “Notice Concerning Revisions to Consolidated Earnings Forecast (Japanese version only)” released on February 14, 2022 because the share transfer will be made on a day after obtaining approval from the relevant authorities (for details, please refer to “Notice Concerning Acquisition of 100% of Shares in Nihon Pet Small-amount Short-term Insurance Company (Making the Company as Wholly Owned Subsidiary) (Japanese version only)”) and it is expected to take a reasonable period of time to change the applicable accounting standards to the International Financial Reporting Standards. We will promptly announce our consolidated forecast when it becomes available for disclosure.

5. 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, 2021	19,962	10,047	9,753	48.9	551.82
As of Jun. 30, 2021	20,330	10,470	10,162	50.0	577.51

* Notes

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: - Excluded: -

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

(3) Number of shares outstanding (common shares)

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

As of Dec. 31, 2021:	17,674,659 shares	As of Jun. 30, 2021:	17,597,459 shares

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

As of Dec. 31, 2021:	8 shares	As of Jun. 30, 2021:	8 shares

3) Average number of outstanding shares during the period

Six months ended Dec. 31, 2021:	17,623,740 shares	Six months ended Dec. 31, 2020:	17,529,035 shares

* The current consolidated financial results are not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Scala’s management at the time these materials were prepared, but are not promises by Scala regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

How to view supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results will be disclosed today (February 14, 2022) and available on the Scala‘s website.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

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

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

As the Company excluded SOFTBRAIN Co., Ltd., a consolidated subsidiary, from the scope of consolidation due to the Company transferring all of its shares in the previous fiscal year, it has reclassified the businesses of SOFTBRAIN Co., Ltd. and its subsidiaries as discontinued operations.

(1) Explanation of Results of Operations

The first half of the fiscal year ending June 30, 2022 (“the period under review”) saw a sign of economic recovery as a result of termination of the state of emergency, etc. with an increase in the percentage of those vaccinated that led to a significant decrease in the number of those infected. However, with a rapid worldwide spread of the new variant strain, there are increasing concerns over an adverse effect of the 6th wave of infection on business activities in Japan. As such, the outlook for the business environment surrounding the Group remains uncertain.

In such business environment, the Group has worked to create and expand new services and enhance existing businesses in the form of “co-creation” with the domestic private companies and local governments in order to develop into a “value co-creation company solving social problems with clients through business” as stated in the Mid-term Management Plan announced in August 2019.

As a result, the Group reported revenue of 4,268 million yen (down 0.4% year on year) for the first half. This decrease was mainly due to a significant decline in sales in the Customer Support Business, despite higher sales in the HR & Education Business, EC Business and Incubation & Investment Business.

Operating loss amounted to 79 million yen (compared with profit of 25 million yen for the same period of the previous fiscal year) due to the following reasons: the profit decrease in IT/AI/IoT/DX business and increased losses in Incubation & Investment Business due to the continued aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major digital transformation (DX) projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses, and recognition of loss on valuation of investment securities in the Investment Business, all of which offset a surplus in the HR & Education Business and a significant increase of operating profit in the EC Business.

Due to a decrease in interest expenses and other financial expenses resulting from a decrease in the balance of borrowings, loss before tax amounted to 88 million yen (compared with profit of 7 million yen a year earlier).

Loss amounted to 91 million yen (compared with profit of 258 million yen a year earlier) and loss attributable to owners of parent amounted to 72 million yen (compared with profit of 137 million yen a year earlier) due to income taxes of 2 million yen.

(Reporting on a non-GAAP basis)

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

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

Non-recurring items refer to one-off profits or losses that we believe should be excluded based on certain criteria for the purpose of preparing the earnings forecast.

While the Group discloses the non-GAAP measures in reference to the rules set out by the U.S. Securities and Exchange Commission, this does not mean the Group fully complies with these rules.

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

For the first half of the previous fiscal year, in addition to the above-mentioned deduction, there were 42 million yen of expenses incurred on the transfer of common shares of a Scala's consolidated subsidiary SOFTBRAIN Co., Ltd. (consisting of financial advisory fees and legal fees) and for expenses incurred on relocation of the head office of Scala's subsidiary (consisting of retirement expenses for property, plant and equipment, etc.)

During the first half of the current fiscal year, in addition to the above-mentioned deduction, there were 74 million yen of expenses associated with merger and acquisitions, and expenses incurred on relocation of the head office of Scala's subsidiary.

Business segment performance is as follows.

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

(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and Scala Next, Inc. are consistently working on proposal, introduction support, provision and improvement of existing SaaS/ASP services as well as planning and development of new services to support major private companies and local governments to promote DX initiatives.

Regarding the status of major projects, we have developed "U-medical support," the first veterinary medical care support system in the livestock industry jointly with Mitsui Sumitomo Insurance Company, Limited, a member of the MS&AD Insurance Group and desamis Co., Ltd. as a co-creation project. The system supports communication between veterinarians and farmers for veterinary medical care using digital technologies. It works with "U-motion®," a system to monitor cattle behavior utilizing IoT and AI developed by desamis Co., Ltd. as a service to understand cattle health condition on a real-time basis, and allows veterinarians and farmers to check individual cattle's progress after medical treatment by a smartphone at hand or a PC. The system will implement note function, electronic health recording function, various master functions for actual symptoms and medicine, etc., search function for information on farmers and individual cattle as well as FAQ and chatbot functions for farmers. We will involve in the development of those functions. We aim to develop and provide services that lead to resolution of issues faced by veterinarians and farmers by adding new functions going forward.

In addition, introduction of our new services has been going. We have introduced "i-dentify" to COLON Company Limited. It is an identity authentication service using incoming telephone calls to enhance security. Users can carry out identity verification and log in a site just by calling the telephone number notified by "i-dentify" from their own telephone numbers at the time of member registration or login to the site.

Introduction of other existing services has also been going. Specifically, we have introduced "i-ask," a FAQ management system to USEN NETWORKS Co., Ltd., AVAL DATA CORPORATION and other companies, "i-search," a website internal search service to transcosmos inc., NYK CRUISES CO., LTD. and other companies, and "i-assist" to DNP Communication Design Co., Ltd. and other companies. Moreover, regarding the real estate trust DX platform that we have co-created with Shinoken Group Co., Ltd. from the previous fiscal year, we have continued to make additional development for the upcoming official adoption of online disclosure statement and digitized sale and purchase contracts due to revision of the Building Lots and Buildings Transaction Business Act in May 2022. Furthermore, as a new initiative, we are developing new health care service jointly with a pharmaceutical company and a general insurance company under a co-creation project. The project has already been in a demonstration experiment stage and service will be provided going forward.

We have also continued development of a microservice platform, GEAR-S (formerly NEXTi). It has been introduced to an online bank as CMS. We will further promote development of this platform as a foundation for development of SaaS service for private companies and local governments.

Connect Agency, Inc. has promoted enhancement of its lineup, including call center solutions with voice recognition from the first quarter of the current fiscal year, as a result of which it has been able to provide a wide variety of proposals that suit customers' needs and took an order from a company in the period under review.

They have successfully acquired several potential deals and have been pursuing to increase sales by proposing replacements for existing customers and making new proposals to the Scala Group's customers.

As a result, segment revenue was 1,945 million yen (up 0.6% year on year,) segment profit was 499 million yen (up 17.8%) before allocation of corporate expenses, and 201 million yen (down 33.9%) after allocation of corporate expenses.

(ii) Customer Support Business

In the Customer Support Business, sales significantly decreased due to the impact of termination of contracts with major customers. Nevertheless, we have been promoting the enhancement of our organizational structure and business activities from the first quarter of the current fiscal year in order to flexibly respond to diverse needs in a post-COVID-19 world. In conjunction with the enhancement of our organizational structure, while upfront expenses such as personnel expenses and equipment expenses have been increasing, we have gained capacity to insource previously outsourced support services within the Group, thereby creating synergies in businesses co-created and developed with customers that the Group have ever promoted. Under these circumstances, we are crystallizing a plan of developing new accompanying customer support services.

Currently, we will probably take two orders as projects of businesses co-created and developed with customers in the third quarter of the current fiscal year. We will continue to actively promote marketing activities to receive more orders of customer support services from inside and outside the Group.

As a result, segment revenue was 700 million yen (down 32.5% year on year), segment loss was 13 million yen (compared with segment profit of 26 million yen a year earlier) before allocation of corporate expenses, and 15 million yen (compared with segment profit of 4 million yen a year earlier) after allocation of corporate expenses.

(iii) HR & Education Business

This business mainly consists of the following services: (1) recruitment support for new graduates, specialized for athletic students and female students, as well as services for the planning and operation of related events such as joint information sessions and career seminars; (2) childcare and educational services such as *Minna no Hoikuen* (which literally means a nursery school for everyone), international preschool Universal Kids, UK Academy for school children to foster international awareness, and after-school day service Largo KIDS; and (3) sports school for children, the planning and management of sports events, and online sports education services.

The growth opportunities for the recruitment support service for new graduates is stable since the job openings-to-applicants ratio for university graduates in 2022 was almost unchanged from the previous year even with the coronavirus and the willingness to hire is recovering, especially among large companies. Given these circumstances, we have focused on strengthening our support system and providing services for newly graduated students. We also actively held events such as joint job fairs for companies that are looking ahead to a post-COVID-19 world and vigorously moving toward recruiting activities for students who will graduate from university in 2023.

In the childcare and educational services, the Group focused on securing children for the UK Academy for School Children and promoted measures including holding events and others to ensure that parents and young children can also enjoy at nursery schools and others even amid the COVID-19 pandemic.

As a result, the business recorded segment revenue of 706 million yen (up 7.5% year on year), segment profit before allocation of corporate expenses of 114 million yen (compared with loss of 77 million yen a year earlier), and segment profit after allocation of corporate expenses of 89 million yen (compared with loss of 131 million yen a year earlier).

Under the non-GAAP measures adjusted for subsidiary relocation expenses, segment profit before allocation of corporate expenses was 124 million yen (compared with loss of 49 million yen a year earlier), and segment profit after allocation of corporate expenses was 99 million yen (compared with loss of 103 million yen a year earlier).

(iv) EC Business

The EC business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages.

Under the circumstances where online trading needs have been expanding amid the COVID-19 pandemic, efforts for digital marketing, including SEO worked successfully and sales remained strong at a level higher than the previous fiscal year. In addition, the Winter Sale held at the end of 2021 was well-received, as a result of which monthly sales and gross profit for December 2021 reached a record high.

Moreover, the iOS app released at the end of the previous fiscal year has steadily been acquiring more and more users and we have started to develop an Android app. We will continue to enhance usability of apps and other products.

As a result, the EC business recorded revenue of 815 million yen (up 31.4% year on year), segment profit before allocation of corporate expenses of 141 million yen (up 48.7%), and segment profit after allocation of corporate expenses of 120 million yen (up 56.2%) for the first half.

(v) Incubation & Investment Business

The segment covers business investments and businesses related to regional revitalization in collaboration with local governments implemented by the Company, and businesses by J-Phoenix Research Inc., which are engaged with activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, and businesses related to regional revitalization, such as immigration support service from the perspective of the residents. Investments together with the related activities, such as those for value increase of the investee companies are also implemented under an engagement fund named SCSV-1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital LLC.

We incorporated SOCIALX, INC. to strongly promote a new form of public-private co-creation, including Gyaku Propo with respect to businesses related to regional revitalization in collaboration with local governments. We set up 12 projects from Gyaku Propo and, in connection with such projects, we are working on development and provision of new services such as “Kids Café Encouraging Wi-Fi” and “&e,” co-created automobile insurance.

Scala Partners, Inc. is promoting co-creation with partner companies and local governments through the operation of KomfortaWorkation, a workation facility introduction website. For example, it is proposing “a new working style that is not constrained by where to work” suitable for the post COVID-19 era, as well as developing a service with the theme of “You can learn anywhere,” which enables elementary and junior high school students to learn at any place by utilizing online classes. In addition, it is developing experience services aimed at creating a “concerned population” (people who are diversely involved with the region) by allowing people to experience the appeal of the community and increasing the number of fans of the region.

We are working on boosting the value of ARCHITECTS STUDIO JAPAN, INC. and Cookbiz Co., Ltd. whose shares were subscribed by SCSV-1 Investment Limited Partnership, a value co-creation engagement fund by way of third-party allotment through the efforts of providing IR support, including establishment of a medium-term business plan, promoting digital transformation and others.

Moreover, we have focused on business expansion through M&A as one of the growth strategies and actively engaged in deal sourcing and due diligence.

As a result, the segment revenue was 99 million yen (up 174.5% year on year) with segment loss before allocation of corporate expenses of 297 million yen (compared with loss of 59 million yen a year earlier) and segment loss after allocation of corporate expenses of 474 million yen (compared with loss of 128 million yen a year earlier), due primarily to increased upfront investment costs, such as various advisory fees in connection with business investments made by the Company, development costs and personnel expenses for the sake of future growth, and a drop in stock prices of the listed companies in which SCSV-1 Investment Limited Partnership has been investing. Since these losses were caused by upfront investment costs for development into the next stage for future growth, we regard them as temporary losses.

In terms of the non-GAAP measures adjusted for subsidiary relocation expenses, segment loss before allocation of corporate expenses was 164 million yen (compared with loss of 28 million yen a year earlier) and segment loss after allocation of corporate expenses was 341 million yen (compared with loss of 97 million yen a year earlier).

(2) Explanation of Financial Position

Assets

Total assets amounted to 19,962 million yen at the end of the period under review, a decrease of 367 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 1,493 million yen in income taxes receivable, resulting in an increase of 1,185 million yen in cash and cash equivalents and an increase of 61 million yen in inventories, as well as a decrease of 37 million yen in securities related to investment business resulting from market value of securities being lower than acquisition value despite an increase in the number of investment projects.

Liabilities

Liabilities totaled 9,915 million yen, an increase of 56 million yen over the end of the previous fiscal year. This was mainly due to an increase of 215 million yen in bonds and borrowings under current liabilities and an increase of 125 million yen in bonds and borrowings under non-current liabilities, resulting from procuring funds from financial institutions.

Equity

Equity totaled 10,047 million yen, a decrease of 423 million yen over the end of the previous fiscal year. This was mainly due to an increase of 22 million yen in share capital through the issuance of new shares for restricted stock compensation and the exercise of share acquisition rights, etc., an increase of 14 million yen in capital surplus, a decrease of 56 million yen in financial assets measured at fair value through other comprehensive income resulting from an decrease in estimated value, loss attributable to owners of parent of 72 million yen, and a decrease of 316 million yen in retained earnings due to dividend payments.

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

The Group has changed its consolidated forecast for the fiscal year ending June 20, 2022 to undetermined as announced in “Notice Concerning Revisions to Consolidated Earnings Forecast (Japanese version only)” released on February 14, 2022 because the share transfer will be made on a day after obtaining approval from the relevant authorities (for details, please refer to “Notice Concerning Acquisition of 100% of Shares in Nihon Pet Small-amount Short-term Insurance Company (Making the Company as Wholly Owned Subsidiary) (Japanese version only)”) and it is expected to take a reasonable period of time to change the applicable accounting standards to the International Financial Reporting Standards.

We will promptly announce our consolidated forecast when it becomes available for disclosure.

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	Second quarter of FY6/22 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and cash equivalents	9,809,559	10,995,117
Trade and other receivables	1,412,951	1,423,550
Inventories	198,479	259,687
Other current assets	1,570,200	118,390
Total current assets	12,991,192	12,796,746
Non-current assets		
Property, plant and equipment	623,252	615,450
Right-of-use assets	2,525,349	2,297,633
Goodwill	1,949,745	2,033,881
Intangible assets	175,906	174,661
Other financial assets	1,378,871	1,356,866
Securities related to investment business	202,981	165,503
Deferred tax assets	478,312	514,217
Other non-current assets	4,397	7,746
Total non-current assets	7,338,818	7,165,960
Total assets	20,330,010	19,962,706
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	697,097	695,436
Bonds and borrowings	3,355,217	3,570,637
Lease liabilities	481,420	498,775
Income taxes payable	44,164	11,631
Other current liabilities	333,951	273,704
Total current liabilities	4,911,850	5,050,185
Non-current liabilities		
Bonds and borrowings	2,618,594	2,744,133
Lease liabilities	2,121,004	1,906,841
Deferred tax liabilities	75,201	75,201
Other non-current liabilities	132,382	139,053
Total non-current liabilities	4,947,182	4,865,230
Total liabilities	9,859,032	9,915,415
Equity		
Equity attributable to owners of parent		
Share capital	1,750,027	1,772,712
Capital surplus	934,989	949,385
Retained earnings	7,173,991	6,785,190
Treasury shares	(9)	(9)
Other components of equity	303,622	245,912
Total equity attributable to owners of parent	10,162,621	9,753,192
Non-controlling interests	308,355	294,098
Total equity	10,470,977	10,047,290
Total liabilities and equity	20,330,010	19,962,706

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

Condensed Quarterly Consolidated Statement of Income

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Continuing operations		
Revenue	4,285,803	4,268,082
Cost of sales	(2,543,477)	(2,377,887)
Gross profit	1,742,326	1,890,194
Selling, general and administrative expenses	(1,776,367)	(1,897,661)
Other income	105,959	4,826
Other expenses	(30,106)	(7,142)
Operating profit (loss) before gains/losses on securities related to investment business	41,810	(9,782)
Gains/losses on securities related to investment business	(16,260)	(69,608)
Operating profit (loss)	25,550	(79,390)
Finance income	8,481	9,493
Finance costs	(26,570)	(19,033)
Profit (loss) before tax	7,461	(88,930)
Income tax expense	(27,232)	(2,374)
Loss from continuing operations	(19,770)	(91,304)
Discontinued operations		
Profit from discontinued operations	278,691	-
Profit (loss)	258,920	(91,304)
Profit attributable to		
Owners of parent	137,964	(72,047)
Non-controlling interests	120,956	(19,257)
Profit (loss)	258,920	(91,304)
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	(1.35)	(4.09)
Discontinued operations	9.22	-
Total	7.87	(4.09)
Diluted earnings (loss) per share (Yen)		
Continuing operations	(1.35)	(4.09)
Discontinued operations	9.14	-
Total	7.80	(4.09)

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Profit (loss)	258,920	(91,304)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(15,824)	(56,287)
Total other comprehensive income, net of tax	(15,824)	(56,287)
Comprehensive income	243,096	(147,592)
Comprehensive income attributable to		
Owners of parent	121,315	(128,335)
Non-controlling interests	121,781	(19,257)
Comprehensive income	243,096	(147,592)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)

(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, 2020	1,721,239	902,874	4,634,951	(9)	143,932	7,402,989
Profit	-	-	137,964	-	-	137,964
Total other comprehensive income	-	-	-	-	(16,649)	(16,649)
Comprehensive income	-	-	137,964	-	(16,649)	121,315
Increase (decrease) by business combination	-	-	-	-	-	-
Share-based remuneration transactions	15,147	926	-	-	-	16,073
Share-based remuneration transactions of subsidiaries	-	-	-	-	-	-
Dividends	-	-	(245,137)	-	-	(245,137)
Exercise of share acquisition rights	6,718	6,718	-	-	(184)	13,252
Acquisition and disposal of non-controlling interests	-	348	-	-	-	348
Total transactions with owners	21,865	7,994	(245,137)	-	(184)	(215,462)
Balance as of Dec. 31, 2020	1,743,104	910,868	4,527,778	(9)	127,098	7,308,842

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2020	2,940,181	10,343,170
Profit	120,956	258,920
Total other comprehensive income	825	(15,824)
Comprehensive income	121,781	243,096
Increase (decrease) by business combination	4,900	4,900
Share-based remuneration transactions	-	16,073
Share-based remuneration transactions of subsidiaries	(46,011)	(46,011)
Dividends	-	(245,137)
Exercise of share acquisition rights	-	13,252
Acquisition and disposal of non-controlling interests	1,462	1,811
Total transactions with owners	(39,648)	(255,111)
Balance as of Dec. 31, 2020	3,022,313	10,331,156

First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)

(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, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	-	-	(72,047)	-	-	(72,047)
Total other comprehensive income	-	-	-	-	(56,287)	(56,287)
Comprehensive income	-	-	(72,047)	-	(56,287)	(128,335)
Share-based remuneration transactions	10,164	797	-	-	-	10,961
Dividends	-	-	(316,754)	-	-	(316,754)
Exercise of share acquisition rights	12,521	12,521	-	-	(343)	24,698
Forfeiture of share acquisition rights	-	1,077	-	-	(1,077)	-
Establishment of subsidiaries with non-controlling interest	-	-	-	-	-	-
Total transactions with owners	22,685	14,396	(316,754)	-	(1,421)	(281,094)
Balance as of Dec. 31, 2021	1,772,712	949,385	6,785,190	(9)	245,912	9,753,192

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2021	308,355	10,470,977
Profit (loss)	(19,257)	(91,304)
Total other comprehensive income	-	(56,287)
Comprehensive income	(19,257)	(147,592)
Share-based remuneration transactions	-	10,961
Dividends	-	(316,754)
Exercise of share acquisition rights	-	24,698
Forfeiture of share acquisition rights	-	-
Establishment of subsidiaries with non-controlling interest	5,000	5,000
Total transactions with owners	5,000	(276,094)
Balance as of Dec. 31, 2021	294,098	10,047,290

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Cash flows from operating activities		
Profit (loss) before tax	7,461	(88,930)
Profit before tax from discontinued operations	398,522	-
Depreciation and amortization	546,444	323,673
Loss on retirement of fixed assets	29,592	6,390
Loss (gain) on securities related to investment business	16,260	69,608
Finance income	(8,748)	(9,493)
Finance costs	27,616	18,518
Decrease (increase) in trade and other receivables	184,043	26,322
Increase (decrease) in trade and other payables	10,367	61,328
Decrease (increase) in inventories	(39,289)	(60,120)
Other	(219,909)	(125,030)
Subtotal	952,361	222,267
Interest and dividends received	8,736	7,872
Interest paid	(26,597)	(15,351)
Income taxes refund (paid)	(158,922)	1,449,288
Net cash provided by (used in) operating activities	775,578	1,664,077
Cash flows from investing activities		
Purchase of property, plant and equipment	(44,282)	(108,395)
Purchase of intangible assets	(450,112)	(25,015)
Purchase of investment securities	(109,086)	(92,130)
Proceeds from sale of investment securities	9,353	-
Payments for loans receivable	(460)	(12,000)
Collection of loans receivable	4,137	152
Payments of leasehold and guarantee deposits	(32,988)	(13,563)
Proceeds from refund of leasehold and guarantee deposits	21,571	16,016
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(70,000)	(69,797)
Purchase of investments accounted for using equity method	(18,915)	-
Other	(548)	(733)
Net cash provided by (used in) investing activities	(691,332)	(305,466)

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(165,856)	75,112
Proceeds from long-term borrowings	554,492	950,000
Repayments of long-term borrowings	(845,607)	(680,674)
Proceeds from issuance of bonds	350,000	-
Redemption of bonds	(200,000)	(20,000)
Repayments of lease liabilities	(284,188)	(215,786)
Proceeds from exercise of share acquisition rights	48,446	35,659
Dividends paid	(245,006)	(316,810)
Dividends paid to non-controlling interests	(659)	-
Other	(8,565)	-
Net cash provided by (used in) financing activities	(796,946)	(172,498)
Effect of exchange rate changes on cash and cash equivalents	(2,118)	(554)
Net increase (decrease) in cash and cash equivalents	(714,818)	1,185,557
Cash and cash equivalents at beginning of period	7,822,725	9,809,559
Cash and cash equivalents included in assets held for sale	(3,740,328)	-
Cash and cash equivalents at end of period	3,367,579	10,995,117

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table.
Cash flows from discontinued operations are described in Note (Discontinued Operations).

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

The registered address of its head office is disclosed on its corporate website (https://scalagrp.jp/).

Scala's consolidated financial statements for the six months ended December 31, 2021 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group mainly provides SaaS/ASP services supporting communications between corporations and individuals through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, and Incubation & Investment Business.

For more information, please refer to "Segment Information, (1) Overview of reportable segments."

2. Basis of Preparation

(1) Compliance with IFRS

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

The condensed quarterly consolidated financial statement was approved by Scala's Board of Directors on February 14, 2022.

(2) Basis of measurement

The Group's condensed quarterly consolidated financial statements are prepared on a cost basis, except specific financial instruments and other items that are measured at fair value.

(3) Functional currency and presentation currency

The Group's condensed quarterly consolidated financial statements are presented in Japanese yen, which is Scala's functional currency, and figures are rounded down to the nearest thousand yen.

3. Significant Accounting Policies

The significant accounting policies applied for the condensed quarterly consolidated financial statements for the period under review remain the same as those applied for the consolidated financial statements for the previous fiscal year except for 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.

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.

As the Company excluded SOFTBRAIN Co., Ltd., a consolidated subsidiary, from the scope of consolidation due to the Company transferring all of its shares in the previous fiscal year, it has reclassified the businesses of SOFTBRAIN Co., Ltd. and its subsidiaries as discontinued operations. Accordingly, the segment information for the first half of the previous fiscal year is presented with the amounts of those from continuing operations. For more information about discontinued operations, refer to "Discontinued Operations" in the Notes to Condensed Quarterly Consolidated Financial Statements.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through AI, IT, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, and redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan. The Group also provides SaaS/ASP services that leverage IT (web, phone, fax, SMS related technologies)/AI/IoT technologies to respond to customer needs in flexible and speedy manner.
- The Customer Support Business provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.
- The HR & Education Business offers recruiting support for new graduates and mid-career employees focusing on physical education students and professional athletes, infant education and sports education to support children to foster personality, and recruiting and hiring support for overseas human resources.
- The EC Business operates a reuse e-commerce site called as "Yuyu-Tei" for buying and selling trading cards games (TCG) for battle-type games, which also contains game walkthrough pages.
- The Incubation & Investment Business engages in M&A and alliance with other companies. It also provides support for new business development working with private-sector firms in coordination with governments and municipalities, and offers regional revitalization services through projects such as those for promoting relocations to rural areas. Furthermore, it makes business investments on its own or through investment partnerships, makes effort to enhance their value, and other activities.

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

First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020) (Thousands of yen)

	Reportable segment							
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Incubation & Investment Business	Subtotal	Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 3)
Revenue								
Sales to external customers	1,933,267	1,038,053	657,170	620,953	36,357	4,285,803	-	4,285,803
Inter-segment sales and transfers	12,699	25,924	5,240	-	-	43,865	(43,865)	-
Total	1,945,967	1,063,978	662,411	620,953	36,357	4,329,669	(43,865)	4,285,803
Segment profit (loss)	305,592	4,672	(131,839)	76,833	(128,138)	127,120	(101,570)	25,550
Finance income								8,481
Finance costs								(26,570)
Profit (loss) before tax								7,461

Notes: 1. The (101,570) thousand yen adjustment to segment profit includes elimination for inter-segment transactions of 3,430 thousand yen and corporate expenses allocated to discontinued operations of (105,000) thousand yen, categorized as a discontinued operation.
2. Corporate expenses are allocate to each segment based on a rational basis.
3. Segment 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 FY6/22 (Jul. 1, 2021 – Dec. 31, 2021) (Thousands of yen)

	Reportable segment							
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Incubation & Investment Business	Subtotal	Adjustments	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
Revenue								
Sales to external customers	1,945,706	700,435	706,199	815,944	99,795	4,268,082	-	4,268,082
Inter-segment sales and transfers	37,033	34,285	4,551	-	6,154	82,023	(82,023)	-
Total	1,982,739	734,720	710,751	815,944	105,949	4,350,105	(82,023)	4,268,082
Segment profit (loss)	201,974	(15,601)	89,005	120,048	(474,817)	(79,390)	-	(79,390)
Finance income								9,493
Finance costs								(19,033)
Profit (loss) before tax								(88,930)

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

Discontinued Operations

Effective on August 14, 2020, the Company concluded an agreement with C5-8 Holdings Co., Ltd. on transferring all shares of SOFTBRAIN Co., Ltd., the Company's consolidated subsidiary. Subsequently on March 22, 2021, the Company completed the transfer of the shares in accordance with the said share transfer agreement.

As SOFTBRAIN Co., Ltd. was excluded from the scope of consolidation in the previous fiscal year, the businesses operated by SOFTBRAIN Co., Ltd. and its subsidiaries have been reclassified and separately presented as discontinued operations.

(1) Discontinued operations performance

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Profit or loss from discontinued operations		
Revenue	4,779,246	-
Expense	(4,380,724)	-
Profit before tax from discontinued operations	398,522	-
Income tax expense	(119,830)	-
Profit from discontinued operations	278,691	-

(2) Cash flows from discontinued operations

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Cash flows from discontinued operations		
Cash flows from operating activities	552,001	-
Cash flows from investing activities	(409,815)	-
Cash flows from financing activities	(162,339)	-
Effect of exchange rate changes on cash and cash equivalents	(1,206)	-
Total	(21,360)	-

Material Subsequent Events

1. Making EGG CO., LTD. a wholly owned subsidiary through share acquisition

The Company's Board of Directors resolved at its meeting held on January 31, 2022 that the Company would acquire 100% of shares in EGG CO., LTD. (hereinafter referred to as "EGG") and thereby make EGG its wholly owned subsidiary. On the same day, the Company executed a share transfer agreement with EGG.

(1) Overview of acquisition

Name of company acquired: EGG CO., LTD.

Business: System development, system maintenance

(2) Reason for share acquisition

EGG is a software development company that has the largest share in Japan. It is the first company in Japan that developed a core system on the part of local governments at the start of the taxation system in which taxpayers can choose to divert part of their residential tax to a specified local government. The system developed by EGG has been still adopted by approximately 680 local governments that account for one-third of all the local governments in Japan from Hokkaido to Okinawa. EGG has strong business relationships with local governments all over Japan. Through co-creation and cooperation with EGG, we will move our efforts for public-private collaboration a step forward and develop social structures that are truly needed in local governments all over Japan.

In addition, EGG is currently developing an early detection system of frailty (meaning a physical condition between a healthy condition and a care-requiring condition and with a decline in physical function or cognitive function) and aims to achieve "extension of healthy life expectancy" and "reduction in social security payments" by allowing people to receive appropriate medical treatment and take preventive measures, thereby avoiding from being in a care-requiring condition through the development of the system. The Company has decided to acquire shares in EGG based on its belief that co-creation and cooperation with EGG will contribute to business growth of the Group in the fields of "medical care and health" and "regional revitalization."

(3) Timing of share acquisition

February 28, 2022 (tentative)

(4) Acquisition cost of acquired company and breakdown by type of consideration

Payment for the acquisition: Cash 928 million yen

(5) Details of major acquisition-related costs

Advisory fees, etc.: 78 million yen

2. Making Nihon Pet Small-amount Short-term Insurance Company a wholly owned subsidiary through share acquisition

The Company's Board of Directors resolved at its meeting held on February 14, 2022 that the Company would, subject to approval of the relevant authorities, acquire 100% of shares in Nihon Pet Small-amount Short-term Insurance Company (hereinafter referred to as "NPSSI") and thereby make NPSSI its wholly owned subsidiary. On the same day, the Company executed a share transfer agreement with NPSSI.

(1) Overview of business combination

Name of company acquired: Nihon Pet Small-amount Short-term Insurance Company

Business: Small-amount Short-term Insurance Business

(2) Reason for share acquisition

NPSSI is a company that has developed business contributing to society through operation of pet insurance "Insurance for Dogs and Cats" since its inauguration, aiming to achieve a happy coexistence of humans and pets and reform the pet industry into the one it should be as well as responding to diverse needs of customers by providing unique insurance products such as those covering 90% of loss. The Company will aim to achieve a new world of insurance by providing services that lead to safety, security and health through co-creation with NPSSI and related partner companies.

The Company has decided to acquire shares in NPSSI based on its belief that acquiring insurance function will enable us to provide the best solutions to various risks our customers and business partners may face, by combining data analysis and risk analysis using technologies such as IT/AI/IoT, which will contribute to further improvement of the Company's corporate value.

(3) Timing of share acquisition

After obtaining approval from the relevant authorities

(4) Acquisition cost of acquired company and breakdown by type of consideration

Payment for the acquisition: Cash 400 million yen

(5) Details of major acquisition-related costs

Advisory fees, etc.: 24 million yen