JPR
Independent Research & Advisory

Through the framework of
GCCManagement™

# A Challenge to AI-based engagement funds

**May 21, 2020**


**CEO Osamu Miyashita, CFA**

**J-Phoenix Research, Inc.**

**a group company of Scala. Inc**

(Tokyo Stoch Exchange:4845)


※ GCCManagement™ is a consulting framework developed by Osamu Miyashita.

# J-Phoenix Research, Inc.

JPR
Independent Research & Advisory

| | | |
|---|---|---|
| Business field | : | IR support, Research, business consulting and invest fund management |
| Location | : | 1-8-1-8F, Nihonbashi Kayaba-cho, Chuo-ku, Tokyo |
| Founded | : | May 2, 2003 |
| Representative | : | Osamu Miyashita, CFA |
| Common stock | : | 10 Million yen |

- A leading expert in Japan, regarding corporate value analysis and IR consulting using the excess profit method. In addition, consulting on introduction of corporate value management to many listed companies
- Contacted with 1500 listed companies.
- J-Phoenix Research, Inc. becomes 100% owned subsidiary of Scala, Inc on Sep 30, 2019.

# Our Team

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## Representative director
## Osamu Miyashita CFA

Joined Nomura Research Institute (1989). Engaged in financial advisory. The first Japanese Stern Stewart Japanese EVA®※ consultant(1999). Introduced EVA® management system in Kao, etc. Joined JPR in 2005 after working in investment banking at Merrill Lynch Securities. Senior Executive Officer of UT Group (TSE 2146) supporting the formulation and execution of the medium-term management plan and contributes to an increase in stock prices(2013-16). Osamu Miyashita is now Chief Strategy Officer of Scala, Inc.

Waseda University, Department of Political Science and Economics, City University (London) MBA, Master of Economics, University of Konstanz (Germany), MIT Sloan & MIT CSAIL Artificial Intelligence: Implications for Business Strategy Program

**Value creation management Expert**

SCALA

## Representative Director
## Norikatsu Nagino PhD(AI)

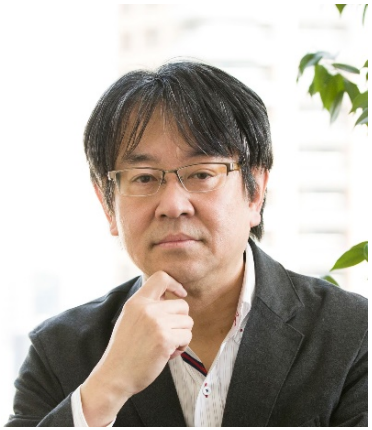
While majoring in artificial intelligence at universities and graduate schools, he has been involved in the management of venture companies.
After joining Scala, Inc., contributed to PMI of the M&A, service development and business performance improvement. Since becoming president in 2013, he has improved the sales growth of the company, and listed Scala, Inc. on the first section of the Tokyo Stock Exchange.

Tokyo Institute of Technology, Graduate School of Science and Engineering, Department of Intelligent Systems Science, Ph.D.

**Digital Business Transformation (DX)Expert**

※ : EVA®is a registered trademark of SternStewart&Co.

# Technical Advisor of Scala Partners, Inc.



## YAMADA Seiji Ph.D.

**Technical advisor of Scala Partners, Inc. a 100% owned subsidiary of Scala, Inc.**

**Fore president (16th) of "The Japanese Society for Artificial Intelligence"**

Professor, Department of Content Sciences, National Institute of Informatics

Doctoral Degrees: Dr. Engineer (1989, Osaka University)

Research Fields: Human and Knowledge Media

J-GLOBAL ID200901068191095768

http://www.ymd.nii.ac.jp/lab/seiji

Current research theme： HAI (Human Agent Interaction)、IWI (Intelligent Web Interaction)

[Biography]

March 1984 Graduated from Department of Control Engineering, Faculty of Engineering Science, Osaka University

March 1986 Completed master's course at Graduate School of Engineering Science, Osaka University

March 1989 Completed doctoral course at Graduate School of Engineering Science, Osaka University

April 1989 Assistant Professor, Faculty of Engineering Science, Osaka University

April 1991 Lecturer, Institute of Scientific and Industrial Research, Osaka University

April 1996 Associate Professor, Graduate School of Science and Engineering, Tokyo Institute of Technology

April 2002 Professor, National Institute of Informatics

# Goal and the role of GCC Management™

Improve the shareholder value of invested companies

through the engagement of introducing a systematic and consistent management concept

which is easy to understand, has affinity with AI/IoT/IT and provides “Value judgement criteria” in terms of shareholder value and happiness of human being.

GCC Management™

# GCCManagement™

## Employee Happiness


**G**rowth

**C**onnection

**C**onfidence

## Shareholder Value


GCCManagement™ systematizes shareholder value and employee happiness with three elements which are simple and easy to understand and provides “Value judgement criteria” for AI tools.

# GCCManagement™

| Long-term direction | | |
|---|---|---|
| Mission, Vision | Capability | Value Proposition |

| Strategy and Operations | | | | |
|---|---|---|---|---|
| Employee Happiness | | GCC™ | Shareholder Value | |
| **Self-actualization needs** | Meaningful growing tasks | **G**rowth | Innovation and social contribution | **Improve sales**<br>**Growth Value** |
| **Esteem, Belonging and love needs** | Appropriate employee relationships, leadership and connections with society | **C**onnection | Connecting with customers, employees and partners<br>Key activities<br>Key resources<br>Key partners | **Improve profitability**<br>**Excess Profit Value** |
| **Safety and physiological needs** | proper training / Environmentally and economically immersive environment | **C**onfidence | Reduce business risk<br>Risk of profit volatility<br>Compliance<br>Financial Stability<br>Governance | **Improve confidence**<br>**Book Value of Equity** |

# Systematic usage of various AI tools

| Examples of appropriate AI tools | | Wisdom<br>Making theoretical decision-making rules | Knowledge<br>Data Systematization of features | Information<br>Featuring and classification of the data | Data<br>Data availability |
|---|---|---|---|---|---|
| Deep Learning | Doc2Vec, Word2Vec, CNN,RNN,etc. | Difficult | Difficult to systematize features in a particular area for decision making | Data is organized but, difficult to classify | A huge amount of data can be input on your computer |
| Machine Learning | SVM, Principal Component Analysis, Random Forest, etc. | Possible by human experience | Possible to systematize features in a particular area for decision making on the basis of human experience | Possible to organize and classify | Data can be input on your computer |
| Knowledge Engineering | Meaning Network Ontology Expert System, etc. | Theoretically possible | Possible to systematize features in a particular area | Possible to organize and classify | Data can be input on your computer |
| Exploration and inference | Tree Search, etc. | Theoretically possible to a limited extent | Possible to systematize features in a very limited | Possible to organize and classify | Data can be input on your computer |

# GCCManagement™ AI, and Our services

| Long-term direction | | | | |
|---|---|---|---|---|
| Mission, Vision | | Capability | | Value Proposition |
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After systematizing shareholder value and employee happiness with three elements which are simple and easy to understand and provides "Value judgement criteria" for AI tools, Scala group recommends appropriate AI tools and creates SaaS product to run AI tools.

| Examples of appropriate AI tools | | Wisdom<br>Making theoretical decision-making rules | Knowledge<br>Data Systematization of features | Information<br>Featuring and classification of the data | Data<br>Data availability |
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Value creation management support
(Concept design of DX on the basis of GCCManagement™)

Support for execution of DX

One-stop solution

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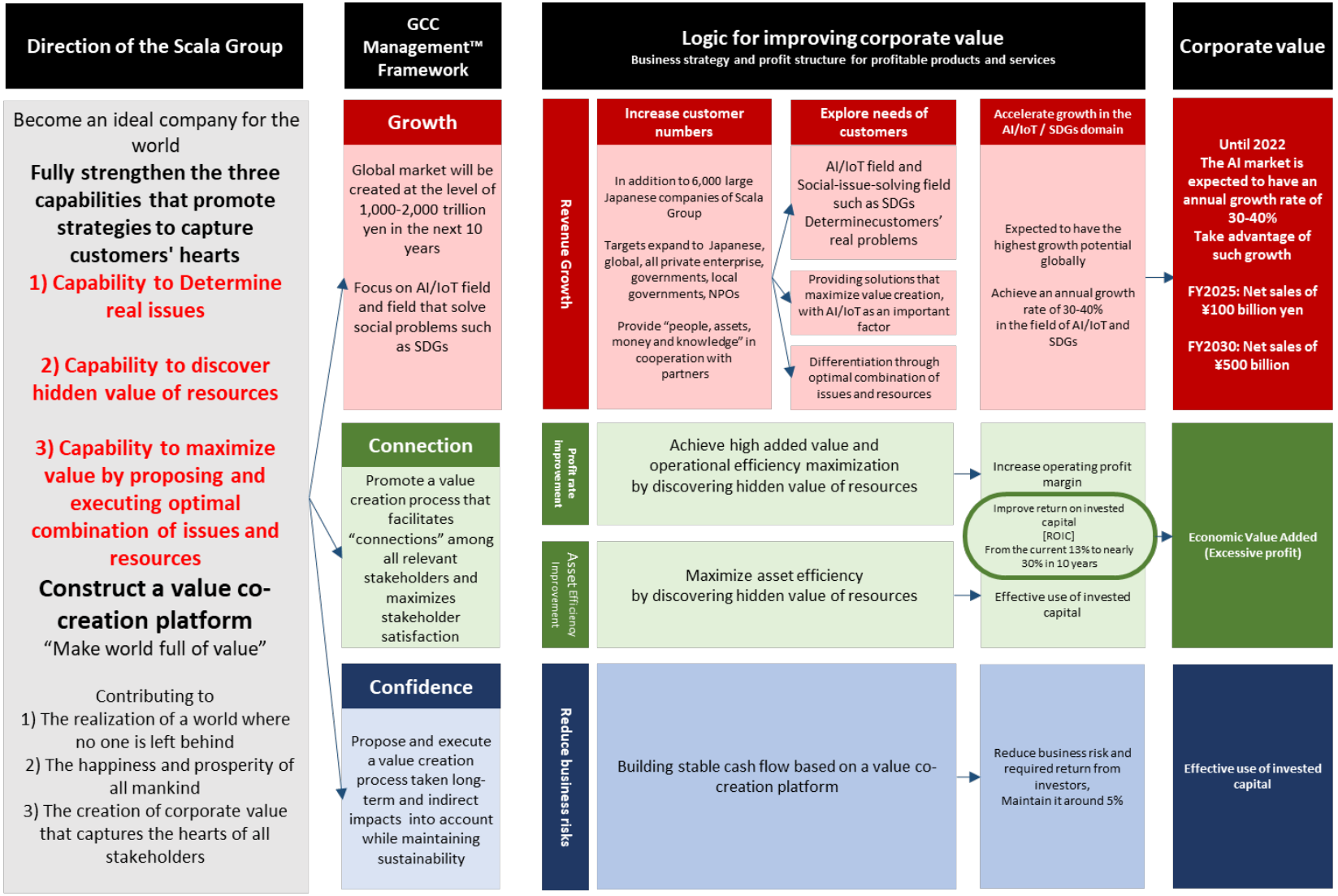
SCALA

# GCCManagement™ : Example of a report



# GCCManagement™ : shareholder value analysis

**A value gap of 45.6 billion yen**

J-Phoenix Research (JPR) has analyzed QUICK CO.,LTD.'s value by using the EVA (Economic Value Added) method, which breaks down the company's value into Invested capital, Economic Value Added, Growth Value, and components. Based on the company's earnings results and forecasts, its shareholder value can be estimated at ¥74.2 billion. Assumptions for the calculations are: sales of ¥34 billion and operating profit of ¥4.9 billion in about 5 years; sales of ¥50.1 billion and operating profit of ¥7.2 billion in about 10 years; and the ratio of Invested capital to Sales to stay at the present ratio of 19.7%. The gap between this estimated shareholder value and the present market capitalization is ¥45.6 billion, implying upside potential, while depending on evolution of market expectations.

**①Shareholders' Equity 9.3 billion yen**

- Invested capital is estimated at ¥4.1 billion as of June 30, 2019, and the ratio of Invested capital to Sales in FY3/2020 at 19.7% Ⓐ . Shareholders' equity, which subtracts Interest bearing debts, etc. and adds Nonbusiness assets from invested capital, is calculated to be ¥9.3 billion. [Shareholders' equity = Invested capital Interest bearing debts, etc. + Non-business assets]

**②Current Value 30.6 billion yen**

- Net Operating Profit After Tax (NOPAT) for FY3/2020 is calculated to be approximately ¥2.0 billion and the NOPAT margin (NOPAT divided by Sales), 9.6% Ⓑ. Return on Invested Capital (ROIC), which is Ⓑ divided by Ⓐ is 49.1%.
- Weighted Average Cost of Capital (WACC), which indicates minimum return that investors demand from a company relative to its invested capital, is estimated at 5.8% for QUICK CO.,LTD., considering factors such as its stock price, financial strategy, and business risks. ROIC/WACC, which indicates shareholder value generated from invested capital, is therefore 8.5 times.
- Based on the above, Economic Value Added (EVA) in FY3/2020 is estimated at ¥1.78 billion. EVA's terminal value, calculated as EVA divided by WACC, in FY3/2020 is then estimated at ¥30.6 billion.

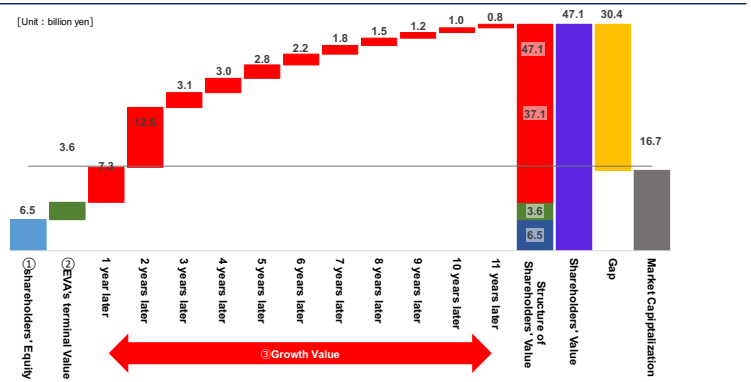
**③Growth Value 34.3 billion yen**

- QUICK CO.,LTD.'s Growth Value is estimated at ¥34.3 billion, based on the assumption of sales of ¥34.0 billion and operating profit of ¥4.9 billion in 5 years.

**Incorporating Non-business Assets 5.8 billion yen**

- Assets other than those invested in businesses, such as cash and deposits which exceeds sales of over 1.5 months, are estimated as ¥5.8 billion yen.

**Composition of shareholder value and analysis of value gap**

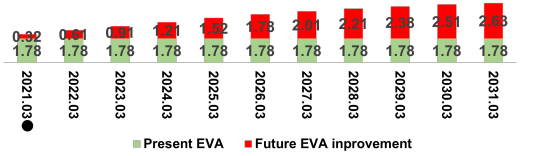



Prepared by using QUICK CO., LTD's disclosed materials, as of August 2

JPR's assumptions, based on QUICK CO., LTD.'s past growth rates and earnings trend [billion yen]

| FY | 2021.03● | 2022.03 | 2023.03 | 2024.03 | 2031.03 |
|---|---|---|---|---|---|
| Sales | 23.9 | 27.2 | 30.6 | 34.0 | 50.1 |
| Sales growth Y-O-Y | 13.9% | 13.9% | 12.5% | 11.3% | 2.7% |
| Operating profit | 3.4 | 3.9 | 4.4 | 4.9 | 7.2 |
| Operating profit margin | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% |
| NOPAT | 2.4 | 2.7 | 3.0 | 3.4 | 5.0 |
| NOPAT margin | 9.9% | 9.9% | 9.9% | 9.9% | 9.9% |
| Invested capital/Sales | 19.7% | 19.7% | 19.7% | 19.7% | 19.7% |
| ROIC | 50.6% | 50.6% | 50.6% | 50.6% | 50.6% |
| Effective tax rate | 30.9% | 30.9% | 30.9% | 30.9% | 30.9% |
| WACC | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% |

[Unit: billion yen]



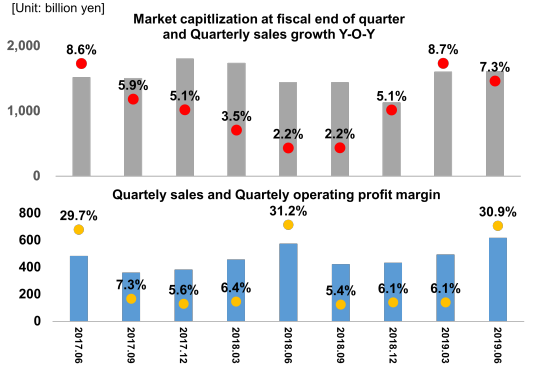

Growth Value is estimated, assuming growth rate

to decrease by 20% each year from FY3/2025 and to become zero in FY3/2031

Past results and the company's forecasts for FY3/2020

| FY | 2016.03 | 2017.03 | 2018.03 | 2019.03 | 2020.03 |
|---|---|---|---|---|---|
| Sales | 12.5 | 14.6 | 16.8 | 19.2 | 20.9 |
| Sales growth Y-O-Y | 10.8% | 16.6% | 15.1% | 14.3% | 9.2% |
| Operating profit | 1.7 | 2.0 | 2.2 | 2.6 | 2.9 |
| Operating profit margin | 13.5% | 13.7% | 13.1% | 13.5% | 13.9% |
| NOPAT margin | 9.3% | 9.5% | 9.1% | 9.3% | 9.6% |
| Invested capital/Sales | 22.3% | 20.2% | 16.9% | 18.9% | 19.7% |
| ROIC | 41.8% | 46.8% | 53.8% | 49.4% | 49.1% |

[Unit: billion yen]




We developed a system automatically creating a value analysis report everyday for 3,000 listed companies in Japan on the basis of daily price movements and disclosed information

# Our status

- Funds were raised on April 30, 2020, with assets of 700 million yen.
- We have already contacts with around 100 listed mid-cap companies which are deeply undervalued especially due to the corona virus crisis.
- Some of them are already agreed on our investments in the next few months and digital management transformation.
- We will report our activities through investors briefing meeting in the future.

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# Our mission

## Supporting value creation through the co-creation with all stakeholders