



Mid-term Management Plan COMMIT5000

**A leap forward to a value co-creation platform
With three capabilities**

“Make a world where valuable things come springing up”

Contributing to

- ✓ The realization of a world where no one is left behind
- ✓ The happiness and prosperity of all mankind
- ✓ The creation of corporate value that captures the hearts of all stakeholders

Revenue of ¥100 billion in the fiscal year ending June 2025

Revenue of ¥500 billion in the fiscal year ending June 2030

Scala, Inc.

1st Section of the Tokyo Stock Exchange: 4845

August 14, 2019

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So far **Leading the industry by providing communication tools for large companies with three capabilities**

Promoting "Three strategies to grab the hearts of customers" for Large Companies

The Scala Group promotes "Three strategies to grab the hearts of customers" 1) optimum customization, 2) stress-free cloud computing, and 3) attractive monthly billing for approximately 1,000 large companies including listed companies in Japan. It has built a top-class track record in providing security-enhanced cloud-based communication tools with SaaS / ASP. As a result, the business performance is steady, and consolidated revenue for the fiscal year ending June 30, 2019 was ¥ 17.1 billion. The following

three capabilities¹ were the keys to earning this result:

- 1) **Capability to determine real issues**
- 2) **Capability to discover hidden value of resources**
- 3) **Capability to maximize value by proposing and executing optimal combinations of issues and resources.**

These three capabilities led the strategy to grab the hearts of customers.

▼ The background of Scala Group leading the industry with its three capabilities and its communication tools for large companies



In the field of communication tools for large companies there was a lot of room for improvement in the optimal combinations of issues and resources.

Although as a late starter, Scala Group became the industry leader with these three capabilities.

1 Capability, literally, translate to "ability", "talent", "quality" and "skills" refers to the organizational capabilities and strengths that are the driving force of corporate growth and is an important concept that constitutes a management strategy.

From now on **Enhancing the three capabilities further Aiming for 500 billion yen in revenue in 10 years**

Up until now, Scala Group has grown by providing values with the three capabilities in following scopes:

- 1) Large Japanese companies
- 2) IT resources within Scala Group
- 3) Optimal combinations of issues and resources between Scala Group and its customers

Providing various solutions for the global market, private companies and governments

Henceforth, targets of the three capabilities will be expanded dramatically as shown in figures below.

- 1 **Capability to determine real issues**
Expanding targets not only to Japanese but also to global companies, private companies, governments, municipalities, and NPOs. For scope of activities, in addition to existing sales, our service in management consulting and media platforms will be strengthened.
- 2 **Capability to discover hidden value of resources**
Expanding targets to not only internal but external resources as well, and with the utilization of AI / IoT technology, targets will expand to "people, assets, capital and knowledge" resources involved in problem-solving. In addition, the scope of activities will be expanded to "people, assets, capital," such as organizational design, education for leaders, financial investment and M&A advisory.
- 3 **Capability to maximize value by proposing and executing optimal combination between issues and resources**
Expanding targets not only to Scala Group and its customers, but all related stakeholders. Expanding scope of activities to operation of AI-based matching platform, investor relations support aiming for market value maximization and provision of various solutions.

▼ Medium- to long-term targets for revenue and operating profits by expanding targets of the three capabilities

Three capabilities	Up until now: targets and activities		From now on: targets and activities	
1 Determine real issues	Target	Large Japanese companies	Target	Japanese, global, all private enterprises, governments, municipalities, NPOs
	Activities	Direct sales	Activities	Sales, management consulting, media platform
2 Discover hidden value of resources	Target	Internal resources	Target	Internal, external resources, IT, AI / IoT in general, Provision of all (people, assets, capital, knowledge)
	Activities	Design, Execution, Operation	Activities	Design, Execution, Operation, Organization design, leader/ employee education, Capital investment, M&A advisory
3 Maximize value by proposing and executing optimal combination of issues and resources	Target	Scala Group and its customers	Target	Scala Group and its customers, All related stakeholders
	Activities	Proposal and execution support of optimal matching	Activities	Proposal and execution support of optimal matching, AI-based matching, Investor relations support, market value maximization support

Among these, it will become a market of several hundred trillion yen in the next 10 years with the targets of Scala Group's three capabilities being met
Focusing on two fields: 1) Solution by means of AI / IoT; 2) Solution to social issues such as SDGs

	Revenue Target	Operating profit targets
The year ending June 2025	100 billion yen	10 billion yen
The year ending June 2030	500 billion yen	50 billion yen

With the three capabilities, Scala Group will leap forward to become a "value co-creation platform" with the service it provides, Scala Group contributes to realizing a world overflowed with value. Scala is also aiming to become "the ideal company for the world" by contributing to:

- 1) The realization of a world where no one will be left behind
- 2) The happiness and development of all mankind
- 3) The creation of corporate value that captures the hearts of all stakeholders

The Driver for growth: one-stop solution for "corporate value creation and AI / IoT implementation consulting"

The utilization of AI is expected to become increasingly important in the future for companies to achieve the optimal combination of issues and resources in management. Therefore, we will build a management consulting system that simultaneously provides corporate value creation and AI / IoT implementation support. We will facilitate consulting and implement the optimal customized AI / IoT tools by cooperating with consulting companies, which has a proven track record of visualizing the value creation process for global AI / IoT research institutions and technology providers. Through upstream, logical, physical, organization/communication design and by providing internal employee training and education, we offer one-stop support from execution to operation and maintenance. In addition, to facilitate this service, we provide hands-on support according to the team structure required for each project, by introducing human resources at the CxO level. Particularly, we will create a one-stop support system for digital transformation (DX) through a "value

The priority areas we focus on are 1) AI / IoT and 2) solutions to social issues such as SDGs², of each high growth rate and a hundred trillion yen market globally can be expected. We are aiming to achieve a Revenue of 100 billion yen and operating profit of 10 billion yen for the year ending June 2025; and a Revenue of 500 billion yen and operating profit of 50 billion yen for the year ending June 2030. Moreover, we will enhance our three capabilities greatly to achieve this goal.

creation management + AI / IoT consulting" one-stop solution. Furthermore, we plan to expand our investment fund and establish an engagement fund that financially supports AI-based value creation. We will also establish a CVC (Corporate Venture Capital) and support the optimal combination of start-ups and large companies using AI. We will support digital transformation (DX) for enterprises through all aspects of "People, assets, capital, and knowledge."

Given the above direction, the system of the one-stop solution of "Corporate value creation and AI / IoT implementation consulting" is expected to be built in the fiscal year ending June 2020. The figure below presents an overview.

² Sustainable Development Goals (SDGs) are international goals from 2016 to 2030, as described in the "2030 Agenda for Sustainable Development" adopted at the United Nations Summit in September 2015. Consisting of 17 goals and 169 targets for realizing a sustainable world, pledging to leave no one behind.

▼One-stop Solution: Consulting of both "Corporate value creation and AI / IoT implementation"



As will be described in detail, in the fiscal year ending June 2020, we plan to comprehensively implement measures to enhance three capabilities in the form shown in the following table.

▼ Outline of the overall image of measures to enhance the three capabilities in the fiscal year ending June 2020

Three capabilities	Enhancement measures in the fiscal year ending June 2020 and its significance												
1 Determine real issues	Strengthened activities (1): Management consulting Strengthened activities (2): Database Media platform	<ul style="list-style-type: none"> For social issues such as SDGs, build an issue database targeting areas where the optimal combination of issues and resources has not progressed, and based on that information, establish a media platform and strengthen the ability to search for true issues. As a management consulting firm, we will also contribute to strengthening the ability to propose the optimal combination of resources and issues and resources that contributes to problem-solving. Develop consulting to provide value creation management consulting and AI / IoT introduction support at the same time 	Use AI such as natural language analysis of internal information to discover problems more systematically and automatically Discovering the real issues that lead to the expansion of corporate value through backward casting										
2 Discover hidden value of resources	Resources to be included and activities	<table border="1"> <tr> <td style="background-color: #e91e63; color: white; text-align: center;">AI / IoT</td> <td> <ul style="list-style-type: none"> Collaborate with global AI / IoT research institutes and technology providers, in order to customize and introduce optimal AI / IoT tools, we provide one-stop support from execution to operation and maintenance by providing upstream/ logical/ physical/ organization/ communication design, internal human resources education and training </td> </tr> <tr> <td style="background-color: #e91e63; color: white; text-align: center;">People</td> <td> <ul style="list-style-type: none"> In order to support the above implementation, providing hands-on support by introducing AI engineers and data scientists as necessary. Introduction of CxO personnel to support the above implementation </td> </tr> <tr> <td style="background-color: #e91e63; color: white; text-align: center;">Assets (including Intellectual property)</td> <td> <ul style="list-style-type: none"> Introduce Venture company to large companies Provide technologies, etc. that contribute to solving problems using patent databases Establish business to support M&A, act as an intermediary for M&A and as a business partner for resources necessary to achieve management goals </td> </tr> <tr> <td style="background-color: #e91e63; color: white; text-align: center;">Money (Capital)</td> <td> <ul style="list-style-type: none"> Establish an engagement fund and apply AI to increase value Launch CVC fund </td> </tr> <tr> <td style="background-color: #e91e63; color: white; text-align: center;">Information (Knowledge)</td> <td> <ul style="list-style-type: none"> Develop communication tools that facilitate the knowledge creation cycle </td> </tr> </table>	AI / IoT	<ul style="list-style-type: none"> Collaborate with global AI / IoT research institutes and technology providers, in order to customize and introduce optimal AI / IoT tools, we provide one-stop support from execution to operation and maintenance by providing upstream/ logical/ physical/ organization/ communication design, internal human resources education and training 	People	<ul style="list-style-type: none"> In order to support the above implementation, providing hands-on support by introducing AI engineers and data scientists as necessary. Introduction of CxO personnel to support the above implementation 	Assets (including Intellectual property)	<ul style="list-style-type: none"> Introduce Venture company to large companies Provide technologies, etc. that contribute to solving problems using patent databases Establish business to support M&A, act as an intermediary for M&A and as a business partner for resources necessary to achieve management goals 	Money (Capital)	<ul style="list-style-type: none"> Establish an engagement fund and apply AI to increase value Launch CVC fund 	Information (Knowledge)	<ul style="list-style-type: none"> Develop communication tools that facilitate the knowledge creation cycle 	Provide all resources including internal/ external, AI / IoT, people, assets, capital, knowledge
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3 Maximize value by proposing and executing optimal combination of issues and resources	Activities to be enhanced 1) Build and implement a value creation system that enhances the satisfaction of all stakeholders Activities to be enhanced 2) Comprehensive advisory that reflects the value creation system in stock prices	<ul style="list-style-type: none"> Entry into value creation management consulting business Entry into Integrated Report creation support, IR support, sponsored securities analyst report business 	Introduction, Proposal/ execution of value creation theoretical framework Further support to increase the stock price										

Dramatically improve the three capabilities of the Scala Group

Achieve high growth in (1) Solution by means of AI / IoT, (2) Solution to social issues such as SDGs

Overview of new segments and sales targets for each business

Organize business fields in three new segments

Reflecting the above measures to enhance three capabilities, we plan to organize business fields in the following new segments. Firstly, the **“Value Creation Support Business”** will be the new segment that mainly strengthens the ability to determine real issues (first capability)
 Secondly, **“IT / AI / IoT – Relating” Business** is the segment that mainly reinforces the capability to discover the hidden value of resources (second capability) based on all information-related businesses, including existing SaaS/ ASP and SFA business. It reinforces tackling AI / IoT.
 Thirdly, **“Social-Issue-Solving” Business** is the new segment that mainly reinforces the capability to maximize corporate value by maximizing optimal combinations of issues and resources.

▼ Three capabilities and new segments

Three capabilities	New Segments	
1 Segment that strengthens the capability to determine real issues	New	“Value Creation Support” Business
2 Segment that strengthens the capability to discover hidden value of resources	Strengthen the existing	“IT / AI / IoT – Relating” Business
3 Segment that strengthens the capability to maximize value by proposing and executing optimal combinations of issues and resources	New	“Social-Issue-Solving” Business

Specific examples of initiatives in the fiscal year ending June 2020 (specific details are subject to change at any time depending on the circumstances surrounding the initiatives) are shown for each segment and each major sub-segment. The following chart shows the sales targets for the fiscal year ending June 2025 and June 2030.

▼ IT / AI / IoT-related business : Specific initiatives and medium- to long-term sales targets for the fiscal year ending June 2020

Main sub-segments	Overview	Revenue Target	
		The year ending June 2025	The year ending June 2030
SaaS/ASP	<ul style="list-style-type: none"> The core business of the Scala Group. Provide corporate communication tools with SaaS / ASP to 1,000 large enterprise customers Together, provide comprehensive advice on value creation which incorporates AI-based natural language analysis, and will strengthen it as a one-stop service that provides AI / IoT design, installation and operation with the understanding of top executives 	60 billion yen	220 billion yen
SFA	<ul style="list-style-type: none"> Developed by consolidated subsidiary Softbrain [TSE First Section: 4779]. Provide sales support system. Won first place in business improvement, installation effect, service and system satisfaction. Evaluated with No.1 in overall satisfaction as CRM / SFA. Supported by a wide range of customers from large companies to small and medium-sized companies, regardless of scale, industry, or business format, and has a transaction record of over 5,000 companies. 		
Field Marketing	<ul style="list-style-type: none"> Developed by Softbrain Field Co., a consolidated subsidiary of Softbrain [TSE First Section: 4779]. Provides sales support and market research by registered staff nationwide. Agency for sales promotion and sales, based on data gathered from all over the country using methods such as mystery shoppers and store surveys, in addition to supporting sales and recruitment. 		
Call center and others	<ul style="list-style-type: none"> Performs call center consulting and entrusted system development. Aims for high growth by strengthening AI / IoT in analysis methods and information collection methods. 		

※ Researched by ESP Research Institute, Inc. May 2018 Males and females in their 20s and 60s / Company managers / executives / group executives, company employees / group employees (including temporary employees and contract employees) / CRM / SFA users / 300 people / Web questionnaire

▼ “Value creation support” Business : Specific initiatives and medium- to long-term sales targets for the fiscal year ending June 2020

Main sub-segments	Overview	Revenue Target		
		The year ending June 2025	The year ending June 2030	
Compressive advisory of value creation	<ul style="list-style-type: none"> One-stop consulting for people, assets, money, and knowledge based on theories of psychology, knowledge creation, information mathematics, and the theory of improving shareholder value. For assets, we collaborate with CVC to match the necessary technologies, and further provide M&A advice. Comprehensive analysis and proposals for the possibility of increasing corporate value by introducing AI / IoT Comprehensive advice on concept/ logical and physical design in cooperation with IT / AI / IoT business Perform human resources and organization, training / leader development business, provide human resources development advice closely linked to value creation management, and CxO level personnel introduction as needed Advise on communication design and organizational design based on knowledge creation theory Develop comprehensive M&A advisory services using large corporate networks 	30 billion yen	180 billion yen	
Fund	Engagement fund			<ul style="list-style-type: none"> Invest in companies that have the potential to increase value in value creation comprehensive advisory operations to gain capital gains. Reflecting shareholder value up to market capitalization with investors-facing communication support
	CVC			<ul style="list-style-type: none"> Invest in large companies and ventures that contribute to solving social problems Achieve a reliable exit with IT / AI / IoT business, social problem solving business, and collaboration with value creation comprehensive advisory business
Investors-facing communication support	<ul style="list-style-type: none"> Collaborate with the Value Creation Comprehensive Advisory Business to create equity stories, sponsored securities analyst reports and Integrated Report, support briefing sessions, set up investor meetings Development of automatic generation system for securities analyst reports using AI 			

▼ “Social-issue solving” Business: Specific initiatives and medium- to long-term sales targets for the fiscal year ending June 2020

Main sub-segment	Overview	Revenue Target	
		The year ending June 2025	The year ending June 2030
Target: Developing countries	Health	10 billion yen	100 billion yen
	Education		
Environmental problems	<ul style="list-style-type: none"> Establish a comprehensive information platform with issue database, resources database, and optimal combination advisory function to solve environmental problems from a broad perspectives based on the theory of resources circulation which is based on microorganism-based biotechnology such as algae Collaborate with various organizations dealing with environmental issues, research institutions, and large companies with technology Coming under SDGs water / sanitation / energy / innovation / climate change / marine resources / terrestrial resources. Market size ¥1,888 trillion* as of 2017. 		
Regional revitalization	<ul style="list-style-type: none"> For local cities in Japan and overseas, collaborate with local governments, regional banks, and SMEs to support local culture succession issues, from regional revitalization to nationwide development. Ripple effect analysis using input-output tables Establish a matching platform for human resources / money / culture transmission. Establishing a network of young talents and local culture successors Support with cultural media, matching platform, and optimal team building system. Cooperation with local government budget and regional banks Applied value creation to local culture / technical projects Coming under: SDGs growth / employment / inequality. Market size 329 trillion yen* as of 2017 		
Investment fund	<ul style="list-style-type: none"> Invest in things that can be commercialized and aim for capital gains 		
Patent, Intellectual Property Database	<ul style="list-style-type: none"> Create a database of patents and intellectual property related to fields that contribute to solving social problems, and generate matching algorithms using AI. Support the optimal combination of issues and resources 		

* Deloitte Tomatsu, <https://www2.deloitte.com/jp/ja/pages/about-deloitte/articles/dtc/sdgs-market-size.html>

Visualization of creating corporate value through GCC management™ framework

Visualization of corporate value through Growth, Connection, and Confidence

The Scala Group proposes and implements optimal combinations of issues and resources which enhances the ability to maximize value and seeks to improve the value of all stakeholders. In order to achieve these objectives, we have gained trust in our customers based on proactive challenges and experience, know-

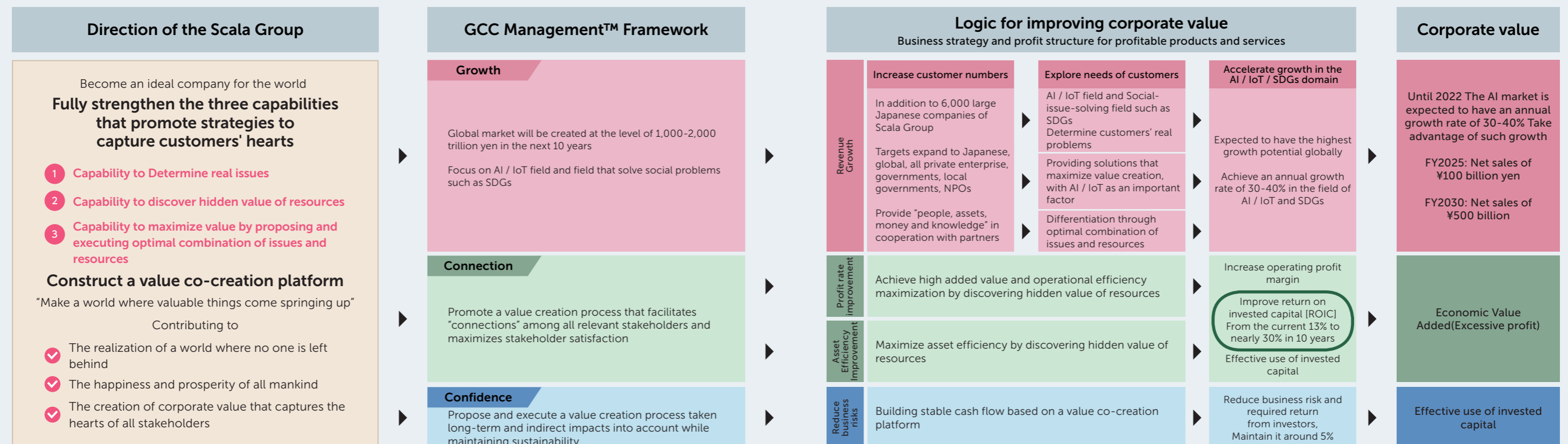
how, and achievements in new technologies and earned new services from the real challenges acquired by seriously listening to customer needs. By doing so, we have developed this unique subscription-based business model, which connects to continuous growth.

In the future, in order to further expand this concept and build an integrated value creation system that covers "people, assets, capital and knowledge", we introduce the idea of GCC management system™ developed by J-Phoenix Research Co., Ltd³. (hereinafter "JPR"), which conducts management advisory for creating corporate value.

In JPR, the following three elements are considered important for creating corporate value that captures the hearts of all stakeholders: 1) Growth through social contribution as a challenger (Growth); 2) Improving profitability and asset efficiency through stakeholder bonds (Connection); 3) Improving trust and security (Confidence). The acronym used for the concept is

"GCC Management™." The elements of corporate value are 1) Sales Growth, 2) Return on Invested Capital⁴ and 3) Business Risk (Capital cost / WACC⁵). The contents explained in GCC management can be summarized as follows.

▼ Visualization of creating corporate value through GCC management™ framework



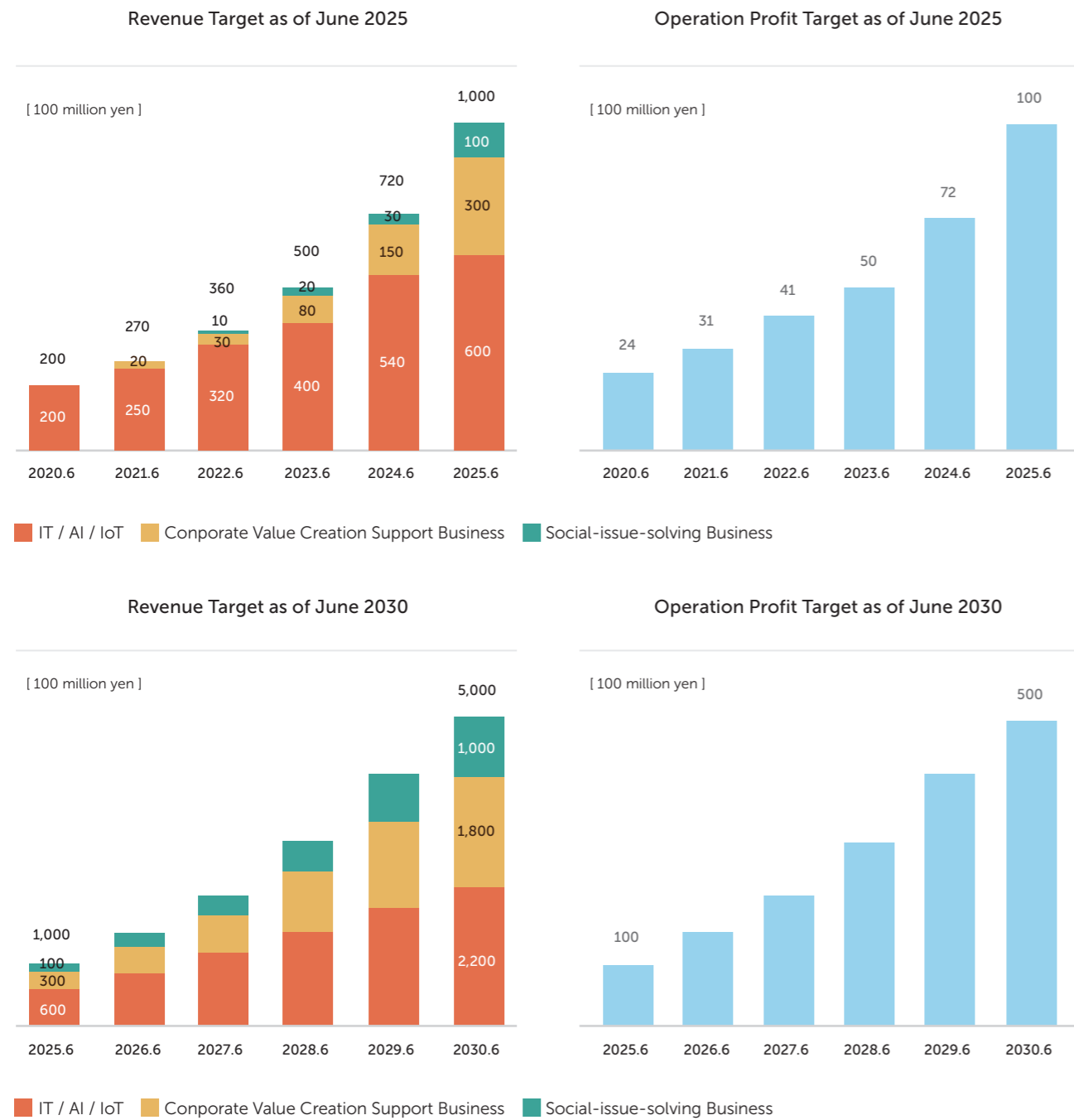
³ A comprehensive advisory firm for company valuation founded in 2003. We conduct a wide range of consulting activities related to value creation management, including management consulting, IR consulting and for sponsored securities analyst reports. For details, see: <https://www.j-phoenix.com/>

⁴ Invested capital is capital that is procured from the capital market and invested in the business. Calculated as Total assets -Non-business assets such as surplus cash and deposits -Current liabilities other than interest-bearing debt.

⁵ Returns required by investors. Calculated by weighted average of creditors and shareholders. Also called capital cost or Weighted Average Cost of Capital, WACC. The higher the business risk, the higher the WACC.

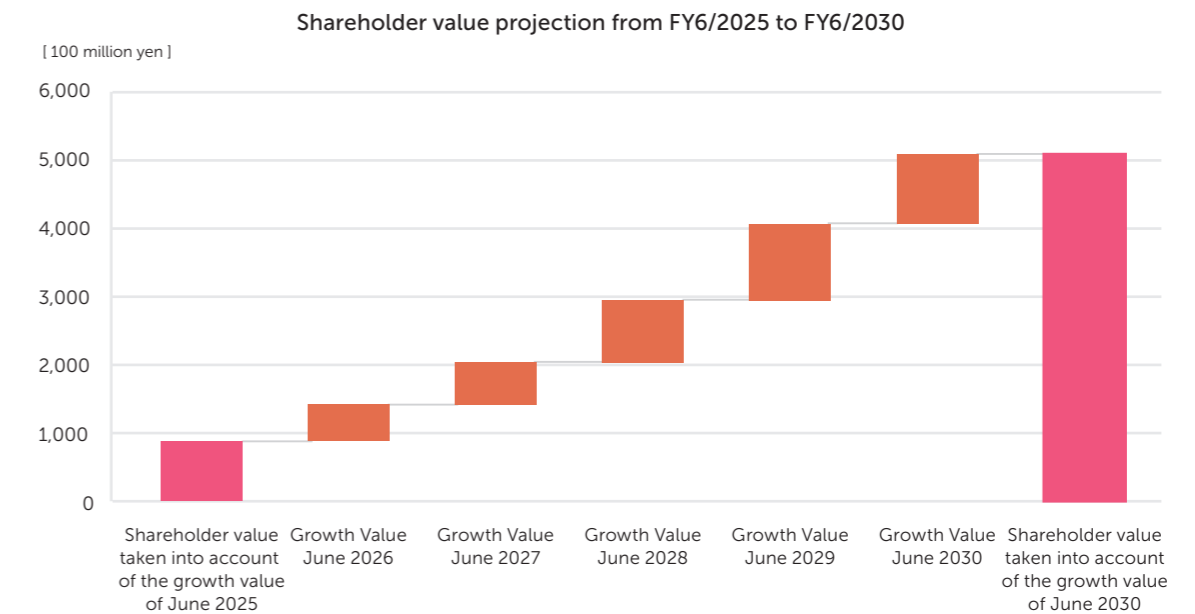
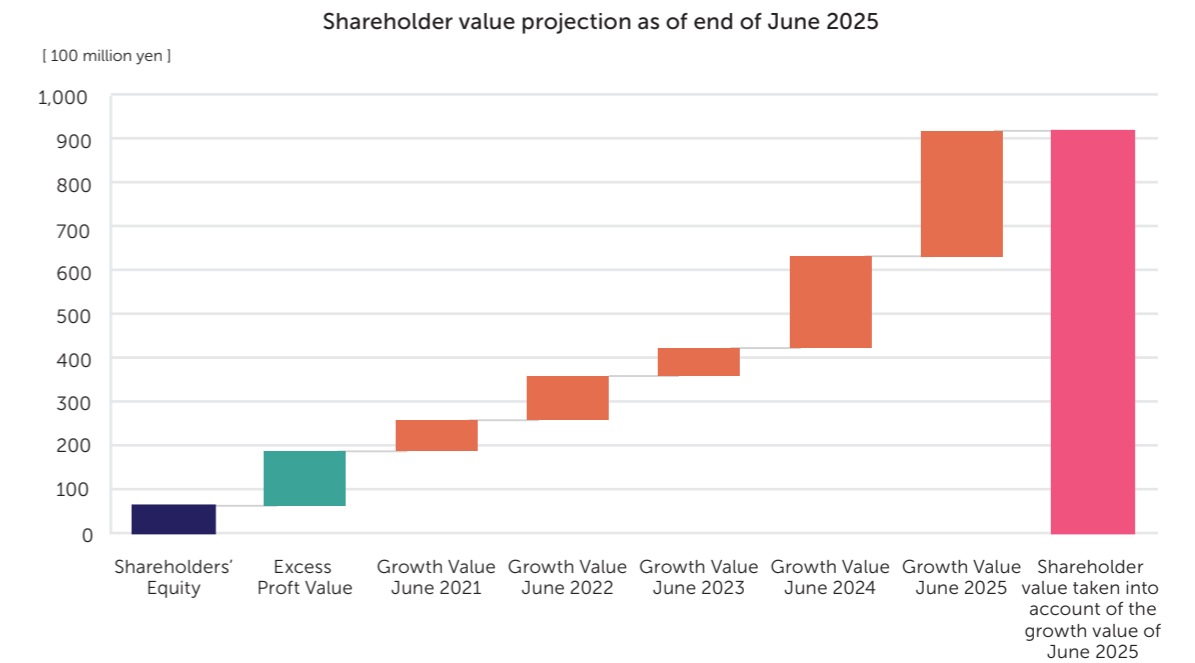
The following figure shows the image of annual revenue and operating profit in the above plan.

▼ Target of Mid-term Management Plan



Based on the above assumptions, the following figure illustrates the long-term trend of increasing corporate value under the Excess Profit Method⁶ framework. In the long term, we aim to achieve a theoretical shareholder value of ¥ 500 billion.

▼ Shareholder value projection by the Economic Value Added method: Estimated on the assumption that the goals of the medium-term management plan have been achieved



⁶ Excess Profit estimates the profit exceeding the investor's satisfactory return for the invested capital used. Its present value becomes "Excess Profit Value", and when excess profit grows, it becomes "growth value". In addition, assets that are not used in the business are added as nonbusiness asset values to estimate the theoretical corporate value. Theoretically, the estimated corporate value by the discounted cash flow method (DCF method) and Excess Profit method are the same.

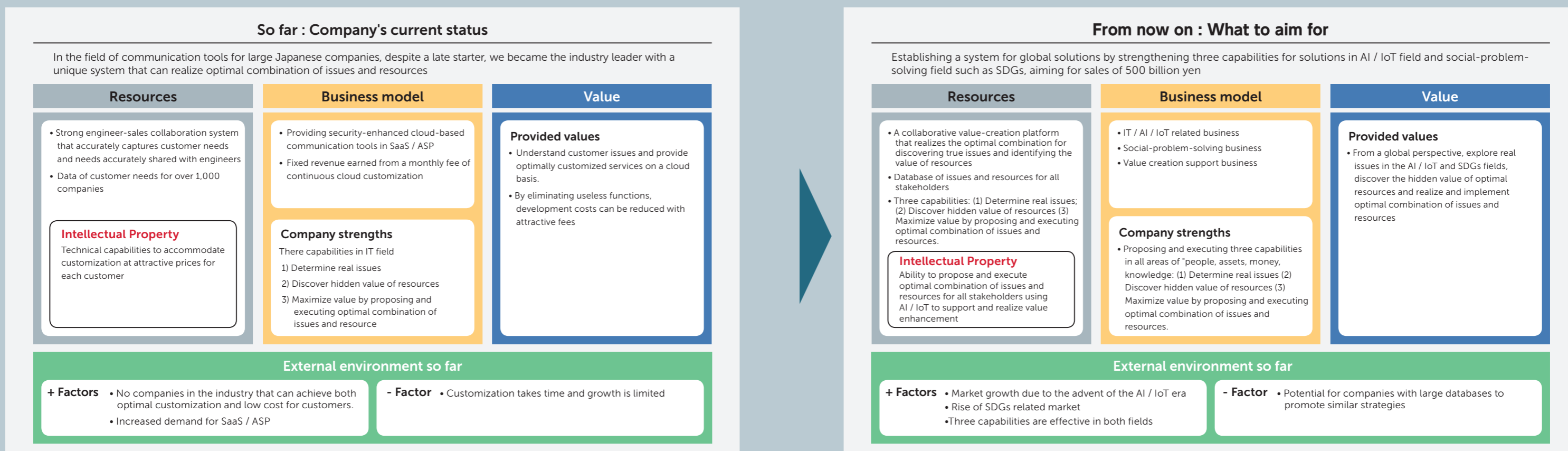
Overview of the management design sheet

Definition of the management design sheet

The management design sheet is a "tool for designing management by accurately evaluating the role of intellectual property in the corporate value creation mechanism"⁷ created by the Intellectual Property Strategy Promotion

Office of the Cabinet Office. As the social and economic environment changes from the 20th century type, where a stable supply of goods leads the market, to the 21st century type, where users with diverse values seeking experience and empathy are driving the market, the role of intellectual property, as the driving force of management, is increasing. The management design sheet was developed based on expert knowledge and practitioners in various fields to visualize such movement and was announced in June 2018. It is possible to take a bird's-eye view of the management of a company in the framework of a time axis, creating awareness of the relationship between "resources", "business models", and "values". The following figure shows the contents of the management design sheet.

▼ Overview of Scala Group strategy development by management design sheet



Three issues and three strategies derived from "the current state of the company" and "what we should aim for"



⁷ Reference: https://www.kantei.go.jp/jp/singi/titeki2/keiei_design/index.html

II Corporate and Management Philosophy

We will explain in detail the corporate and management philosophies that play a fundamental role in management direction.

Corporate Philosophy

Scala Group's Corporate Philosophy

The Scala Group has the following three corporate philosophies.

Demonstrate ethical values	Fulfill social responsibility	Prosper forever
In all corporate activities, we act with social ethical reflection and discernment.	Recognizing the social nature of a company and responding to the requests of various stakeholders, we contribute to the maintenance and development of society.	The goal is to grow long-term and steadily to contribute to the future of Japan in 10 years and 50 years from now.
<ul style="list-style-type: none"> ✔ Obey social rules ✔ Do not take action that is ambiguous ✔ Each employee has high ethical standards and always acts with trust. 	<ul style="list-style-type: none"> ✔ Convince employees, customers, and shareholders that choosing Scala Group is a good choice ✔ Strong awareness of balance of interests among stakeholders ✔ Contribute to the maintenance and development of society by becoming a "good corporate citizen"⁸ 	<ul style="list-style-type: none"> ✔ Major goal is to "contribute to the happiness and prosperity of all mankind" ✔ Have a strong will to achieve ✔ Respond flexibly to changes in environment ✔ Actively strive to achieve the plan

Based on the above corporate philosophy, the following management philosophy (vision, mission, and value) is set forth.

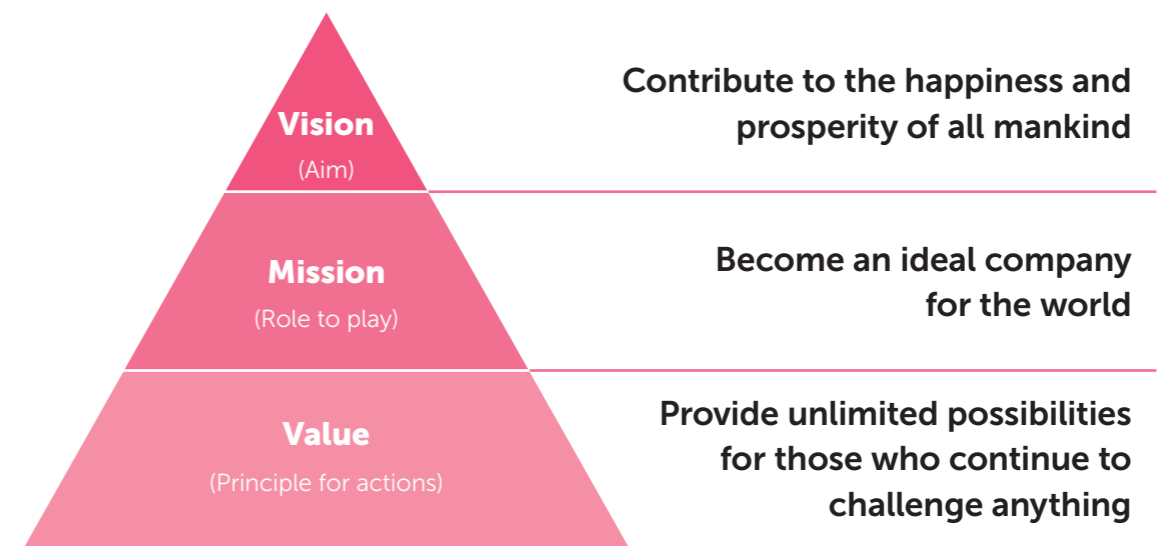
⁸ Corporate citizen: One of the terms in business administration field. The concept that companies should be good citizens before pursuing profits. In society, companies should be able to exercise their rights, at the same time being obligated and should be aware that they are citizens of the community. (From Wikipedia)

Management Philosophy (Vision, Mission, Value)

Vision (Aim) : Contribute to the happiness and prosperity of all mankind

By providing a wide range of services that promotes communication between people and between companies and people, we discover valuable people, assets, and information. Additionally, by delivering to those who recognize their value in a timely manner and by fully supporting information sharing to the world, we aim to contribute to people's the happiness and prosperity of all mankind. Also, by discovering the people who recognize value and by delivering this to them at the right time, values are properly compared and things with higher value remain in the world. By pursuing a world with accelerated processes of creating greater value, we aim to solve various social problems, create technologies that lead to the evolution of humankind and create a society full of value.

▼ Scala Group's Management Philosophy (Vision, Mission, Value)



In addition, the Scala Group's subscription-based business model has been adopted by businesses all over the world. By being recognized as spreading truly useful value to the world, we aim to make the Scala business model a global standard.

Consequently, we provide unlimited possibilities to people (including employees) who have a strong will to realize their dreams; they continue to challenge business that are new/ interested in us/ skilled ,without worrying about failure, and achieve a higher chance of success; they aim to fulfill all dreams by indirectly contributing to the maintenance and development of society not only for employees, but also family members, friends, peers, shareholders, customers, and local communities that share the same will.

Mission (Role to Play): Become an ideal company for the world

As a role to be fulfilled, the mission is to "become an ideal company for the world." Due to the richness of science and technology and discovering new and old social problems, we contribute not only to direct social contributions in the IT business domain, but also indirectly to people's happiness. We aim to contribute to solving not only Japanese issues, but also global issues as well as to the prosperity of mankind. In such a role, we discover the true value that is easily hidden by using Scala Group's unique mechanism, breaking down hurdles, so to speak, by activating the "Value Incubation Cycle", we will accelerate the speed of world development, and "uncover unnoticed true values". We believe that the true value that leads to people's happiness can not only be achieved by advances in science and technology but also by "facilitating communication." New values are created and discovered when people and companies repeat input/output with each other towards the same goal. We

will strive to create services that are conscious of "communication design." From achieving individual happiness, to achieving the happiness of society as a whole, we will bring together the capabilities of the entire Scala group, maximize the value created, and support it to spread widely throughout the world. The Scala Group's business model itself is the greatest value of the Group, and we aim to become a value incubation that leads to the happiness of Scala employees and all those related to the Group. This business model is unprecedented, subscription-based and has evolved from the "hospitality" spirit that is unique to Japan. Additionally, this model solicits value and encourages friends and comrades to talk about their dreams and passions. And by acting boldly and coordinating systematically to expand to the world, we will become the world's Scala Group, aiming to become the world's top business with this new business model using IT.

Value (Values and Action Guidelines): Provide unlimited possibilities for those who continue to challenge anything

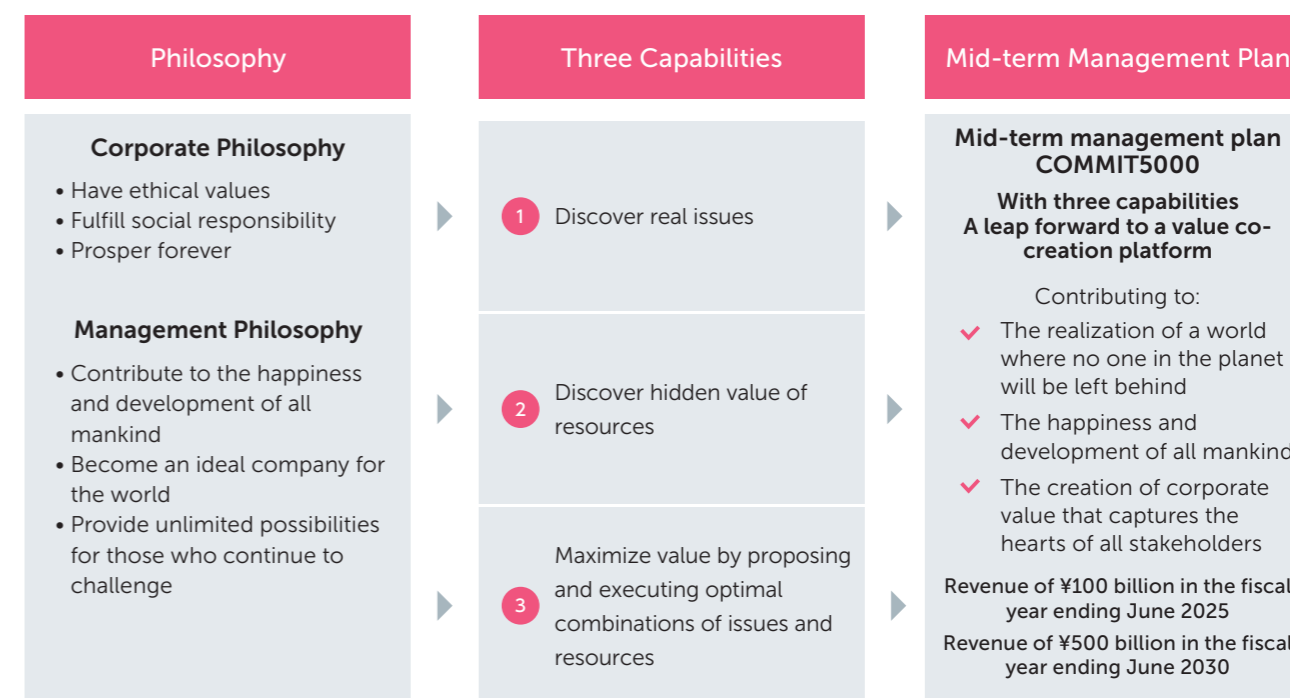
We provide unlimited possibilities for those who continue to challenge anything. We motivate our employees to be able to grow and realize their own happiness by linking what they can do to their dreams and ambition because they are in our Group. Also, we execute specific steps by calculating backwards from the goal and adhering to achieving the goal. We always compare reality with big goals and plans, clarify the gap, and repeat the PDCA cycle for the issues to be addressed. The Scala Group values the importance of staying on goal to realize big dreams, while surpassing the current situation, past successful experiences, existing concepts, and vested interests. In addition, we do the correct job with high ethical standards. We focus on creating an environment in which we can accomplish big things this cannot be accomplished alone because if we are taking the

correct actions, we will have people who understand and collaborate with us. We believe that realizing what others cannot do easily is the root of the Scala Group's growth, and we believe that an abundant environment in which we can thoroughly pursue the possibilities of "I can!" will lead to personal growth. This sentiment is the "Scala Value" and we emphasize "never giving up." We believe that because we all have a strong desire to achieve great goals, we are able to respect, work together, and improve. This will lead to the growth of the Scala Group and everyone who is gathered there, and in collaboration with companies that share the same objectives, we aim to challenge the world with an organized subscription-based business model to achieve top success.

Realized Corporate Philosophy and Management Philosophy: The foundation of the midterm management plan

The realization of the above corporate and management philosophy in ten years is the basis of the overall strategy described in detail below. The embodiment of "having ethical values", "fulfilling social responsibility", "prospering permanently", "contributing to the happiness and development of all mankind", "becoming an ideal company for the world" and "providing unlimited possibilities for those who continue to challenge" connects with enhancing the three capabilities, and with this, we aim to achieve the midterm management plan.

▼ The corporate philosophy and management philosophy lead to the enhancement of three capabilities and become the basis of the midterm management plan



The meaning of co-creation : What do we create with empathy?

The concept of "collaborative creation" is similar to "co-creation." Although both entail drawing diverse stakeholders together to create value, Scala Group uses the term "co-creation" because we believe it has a stronger meaning of creating value with empathy towards a goal.

Solving global social problems with AI / IoT and value creation theory

The "value co-creation platform" aims to solve global social problems with AI / IoT and value creation theory. By doing so, we aim to realize a "world where valuable things come springing up," and to contribute to the happiness of all humankind and the advancement of humanity. Based on AI / IoT and value creation theory, through communication between people and companies, we get to know, understand, communicate with each other, which leads to discovery and realization, and thus, realizes the following three contributions.

Contributing to the realization of a world where no one is left behind	Contributing to the happiness and prosperity of all mankind	Contributing to the improvement of corporate value that captures the hearts of all stakeholders
The Scala Group contributes to the happiness of people not only in Japan but also around the world. We work for the benefit of the entire world by using AI / IoT technology and psychological theory to close the gap of deep-rooted inequality between regions and races.	Happiness beyond religion and culture is realized by presenting the measurement of happiness to all people and helping them achieve this. We also contribute to the advancement of technologies and systems that make people's lives around the world richer and more comfortable.	To capture the hearts of all stakeholders means to excite all the people surround the company, including employees, customers, shareholders, and local communities. First, we will expand the excitement circle from within the company, and then broaden it to include customers and shareholders.

We will realize the above three contributions by solving social problems around the world and by showing the world "the ideal corporation the world needs" and "the ultimate form of social contribution."

"Truth, goodness, beauty" theory and "GCC": Advancement of humanity and achieving better conditions for every stakeholder

As previously mentioned, although our targets are the AI / IoT field and fields related to social problem solving, such as the SDGs, we believe it is important to focus on two concepts when tackling those targets. The first one is the "truth, goodness, beauty" theory. In other words, it is possible to grasp the essence of

things by pursuing "truth," to set good ethical conduct by pursuing "goodness," and to guide people and gain stakeholder sympathy by pursuing "beauty." We will approach the ideals of "truth, goodness, beauty" as a company, meaning selecting business with the awareness of contributing to the prosperity of the

entire human race. The second concept is the "GCC management™" concept described above. This is a management philosophy developed by JPR with the belief that there is a common concept of happiness in a company, which is comprised of a group of individuals. With the concept of "growth, connection, and confidence", we aim to systematically analyze how

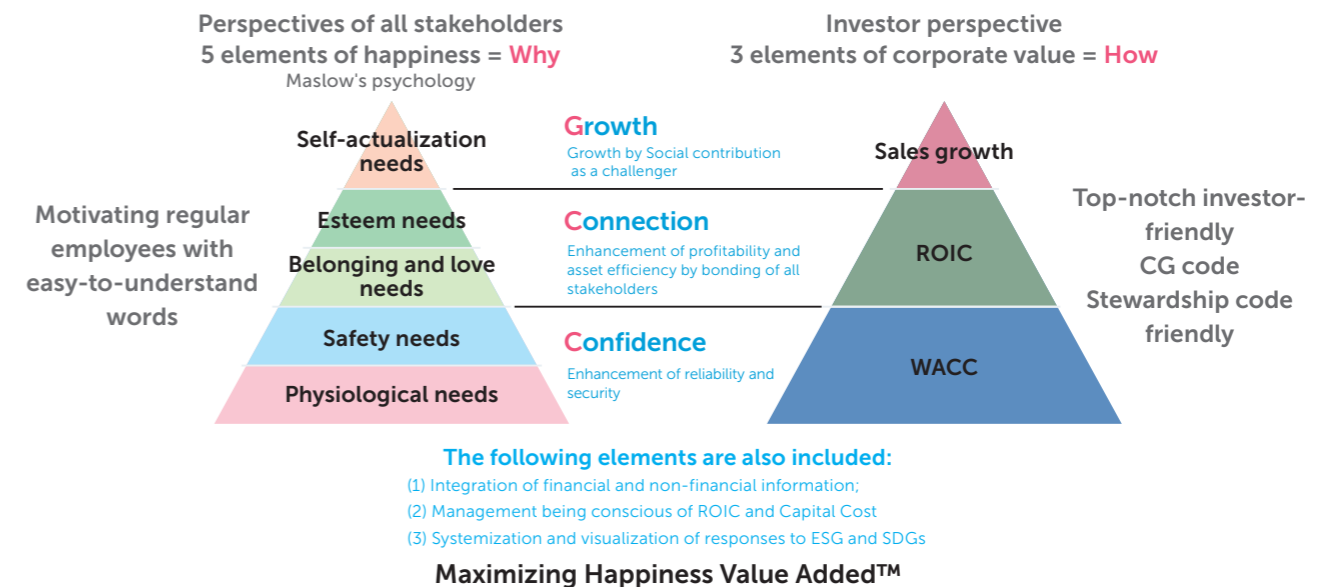
the improvement of individual, corporate and investor happiness connects to elements of corporate value, sales growth, ROIC and WACC and leads to the improvement of corporate value. With the GCC concept, it is possible to achieve better conditions for each stakeholder and improve corporate value.

Integration of non-financial information and financial information that captures the hearts of all stakeholders, under "GCC management™"

By focusing on the happiness of all stakeholders, GCC Management™ is an analytical framework that aims to evaluate the sustainability of shareholder value by combining both non-financial and financial information in an integrated manner. We use a framework of three corporate value elements to assess investor happiness. JPR's concept of happiness for employees uses the five desire-stage theory of Maslow, a renowned American psychologist: people

feel happy if five desires are met. The same principle can be applied to shareholder value, it can be said that its sustainability is higher if improving employee happiness is taken into consideration. JPR calls the Excess Profit (Economic Value Added) generated by the strategy that aims to improve happiness of all employees as the "Happiness Value Added™" concept.

▼ Analysis of corporate value creation that grabs the hearts of all stakeholders through GCC Management™



Enhancing happiness is to ask the significance of a company's existence, that is, "why does the company exist? (Why)." The concept of corporate value is to ask how the company's existence links to value creation (How). By using this framework, it is possible to explain the concept of creating corporate value in an easy-to-understand manner to employees.

It is possible to consider issues in a balanced manner

by pursuing "truth, goodness, beauty," which contributes to the prosperity of the entire human race, and by pursuing "GCC" which contributes to the happiness of each and all stakeholders. We would like to create a platform that "co-creates" value together with various stakeholders while empathizing the pursuit of these two factors.

Three theories supporting GCC management™

Corporate management is summarized by the extent to of utilizing the three theories: human theory, knowledge creation theory, and capital theory (shareholder value theory).

▼ Three theories supporting GCC management™

Theoretical framework to illustrate long-term corporate value

Human Theory	Knowledge Creation Theory	Shareholder Value Theory
Management strengths: Grab all employees' heart including the junior level, as the company unites together	Knowledge creation system: Supports business activities necessary for creating corporate value	Based on the excess profit theory: Integrate human and knowledge factors into shareholder value

Human theory: Positive Psychology-Well-being

Human theory emphasizes positive psychology. Positive psychology is a field of psychology that studies the advantages and merit of making individuals and society prosper. This idea is based on a model proposed by Dr. Martin E. P. Seligman, professor of psychology at the University of Pennsylvania who was the former president of the American Psychological Association. According to Dr. Seligman's model, he proposes the following five factors to measure happiness: "Positive emotion", "Engagement-Immersion" and "Relationship-positive human

relations", "Meaning—feeling the meaning of life and work and a sense of contributing to something bigger than oneself", and "Achievement – a sense of achievement from work and activities⁹". When these indicators improve, it is said that the person has good physical, mental, and social conditions – "well-being" is achieved, and human creativity, productivity, and sociality are improved, and five stages of desire are satisfied. Improving creativity is considered to contribute to the development of high value-added products,

⁹ Wikipedia <https://en.wikipedia.org/wiki/Positive-psychology>

that is, high sales growth, improvement of ROIC (due to improvement in productivity and sociality), and improvement of WACC (due to reduction of labor risk which is the reduction of business risk). It is thought that there is a close relationship between improving creativity and improving corporate value due to the

above stated factors (increased sales, improved ROIC, and reduced WACC). GCC management builds a management system that takes advantage of these relationships.

▼ The Relationship between Positive Psychology and GCC Management

Five factors of positive psychology

P	Pleasant Emotions - Positive emotions	Have positive emotions such as enthusiasm, joy, hope, appreciation, love, and reverence
E	Engagement - Immersion	Have a sense of immersion and of being deeply involved in work, social activities, and human relations
R	Relationship - Positive human relations	Being in a human relationship of love, support, understanding and trust, and having diverse and rich relationships
M	Meaning & Purpose - Realizing the meaning of life and work	Have a sense of being involved in activities that fulfill the purpose of life or of contributing to something larger than yourself Also, a state where you feel the significance of your daily activities and life, or that you feel that you are important
A	Achievement - Sense of achievement from work and activities	A state of getting a sense of achievement from the activity or feeling joy from achieving the goal Genuine feeling of self-improvement through activities

**When Employees' these "five factors" of positive psychology are in good condition
= Means Good conditions mentally, physically, and socially
= Well-being achieved**

**Increase employee creativity, productivity, and sociality.
Contribute to increase sales, improve ROIC, and reduce WACC
Improvement of well-being = improvement of GCC**

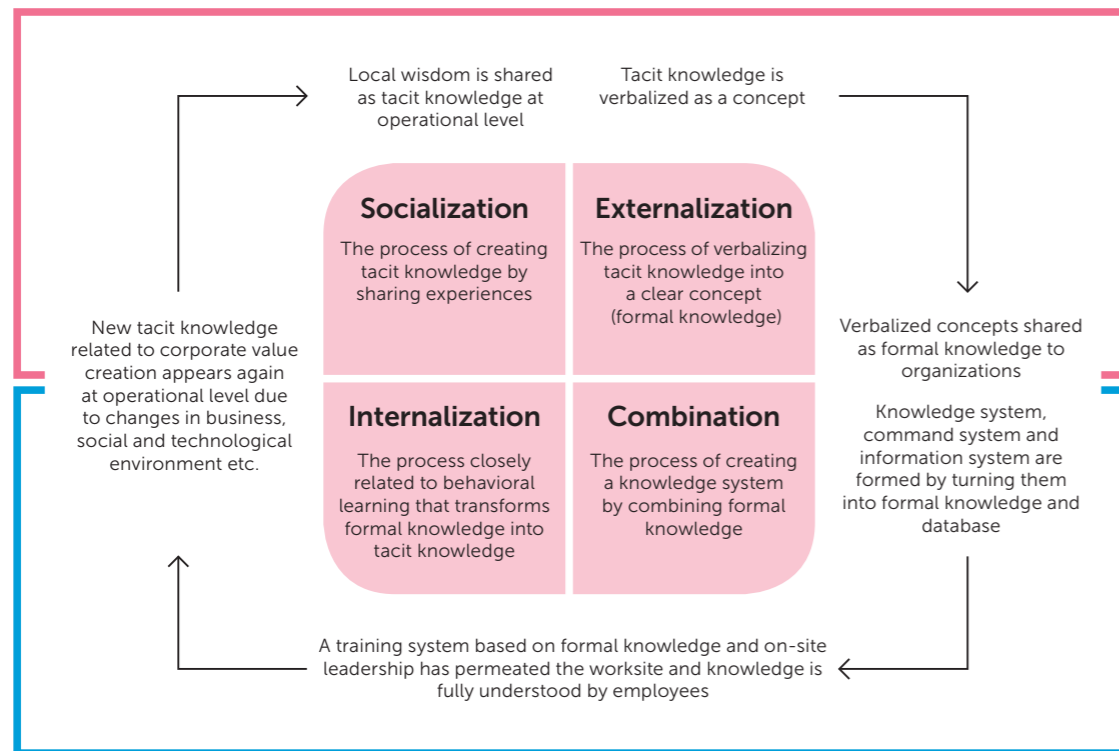
Theory of Knowledge Creation: tacit knowledge; explicit knowledge; AI / IoT

The GCC management™ theory emphasizes a theory that systematizes the knowledge management framework focused on knowledge creation activities, advocated by Kojiro Nonaka, Professor Emeritus of Hitotsubashi University (Professor, Graduate School of International Corporate Strategy, Hitotsubashi University). The theory states that, by going through the four conversion processes - "Socialization," "Externalization," "Combinations," and "Internalization," the tacit knowledge possessed by an individual becomes knowledge (formal knowledge) shared by groups and organizations. It is also called the "SECI model," from the initial letters of the four processes. "Socialization" is the transfer of tacit knowledge from person to person by sharing experiences. "Externalization" is the expression of tacit knowledge in words and sharing it with participating members. "Combinations" is the creation of new knowledge by

combining and rearranging "externalized" knowledge. And "Internalization" is the acquisition of the "externalized" and "combined" knowledge as one's own know-how or skills. Since tacit knowledge is nothing but a large amount of unstructured data, in order to accelerate management based on this theory, we believe the socialization and externalization of tacit knowledge using AI should be accelerated, resulting in more efficient promotion of corporate value creation management utilizing on-site information. Once formal knowledge is formed, it will be important to obtain and analyze large amounts of structured data by IoT.

▼ Relationship between knowledge creation theory and AI / IoT

Analysis of large amounts of unstructured data is main = AI analysis is effective



Analysis of large amounts of structured data is main = Big data analysis by IoT is effective

Shareholder Value Theory (Capital Theory)

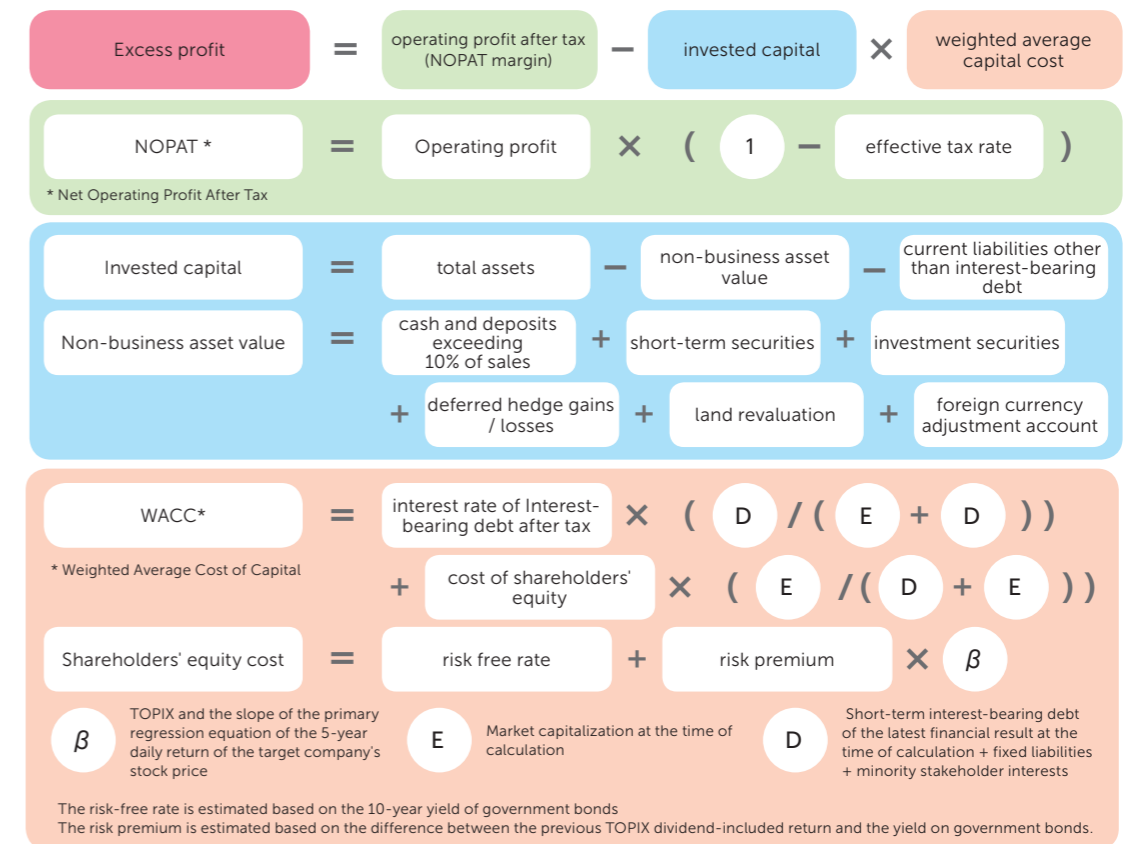
In the GCC management system, shareholder value, and corporate value are based on the Economic Value Added Theory. Excess profit or Economic Value Added (also called Economic Value Added EVA¹⁰) was awarded the Grand Prize in the "5th Corporate Value Improvement Award" held by the Tokyo Stock Exchange and implemented by Kao Corporation. It is being used widely as an index for estimating corporate value globally. In the calculation based on the Excess Profit method, it is possible to understand the corporate value creation structure more deeply by dividing the corporate value into four parts: invested capital, excess profit value, growth value, and non-business assets. The possibility of overvaluation is suggested if the market capitalization is larger than the theoretical shareholder value and if the market capitalization is lower, a possibility of undervaluation is suggested. The contribution to corporate value for each fiscal year can be visualized as shown in the

figure of next page.

In the figure, the calculation is as follows: Shareholders' equity = Invested capital + Non-business assets - Interest-bearing debt, which is shown in a simpler way. In this way, it is possible to speculate how many years of growth are factored into the stock price and promote smooth communication with various stakeholders.

Excess profit estimates the profit exceeding the investor's satisfactory return for the invested capital. "excess profit value" is its present value, and when the excess profit grows, it becomes "growth value". In addition, assets that are not used in the business are added as value of non-business assets to estimate the theoretical corporate value. Theoretically, the estimated corporate value derived by the discounted cash flow method (DCF method) and by Excess Profit method are the same. It is possible to calculate simply as follows.

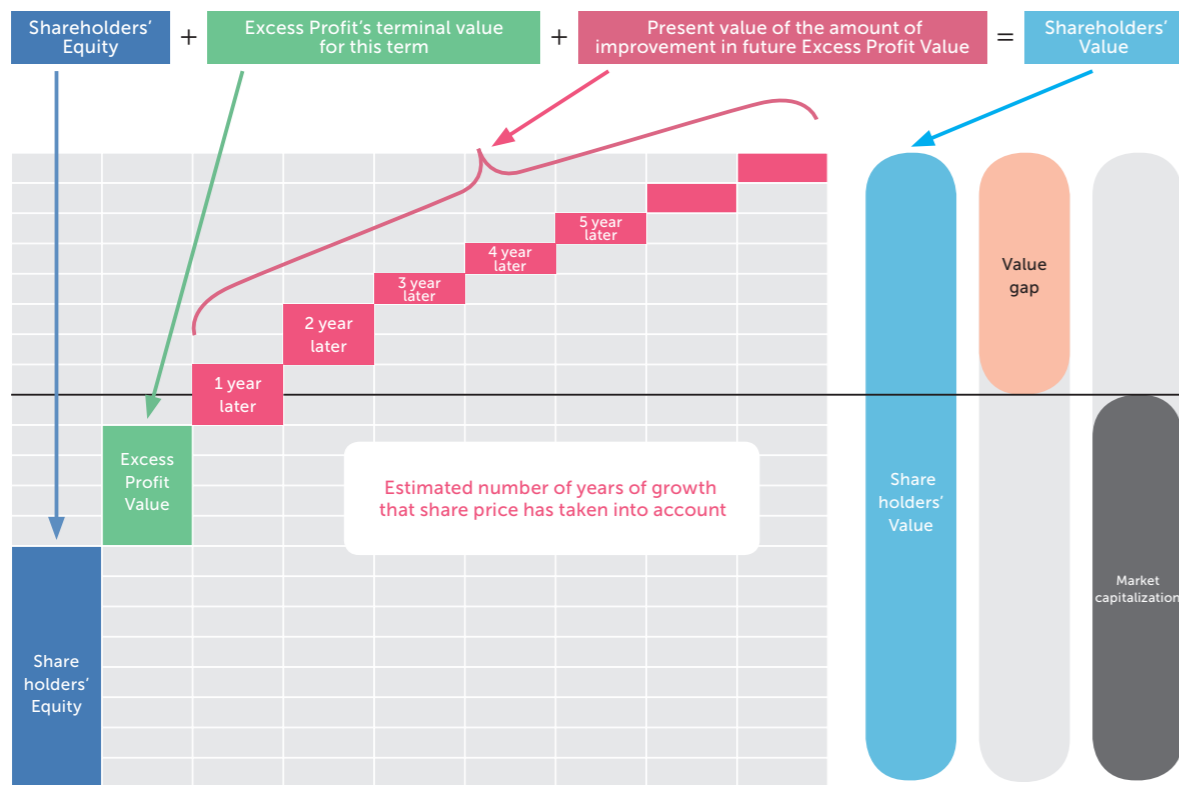
▼ Excess Profit Method Calculation



10 Registered trademark of Stern Stewart & Co.

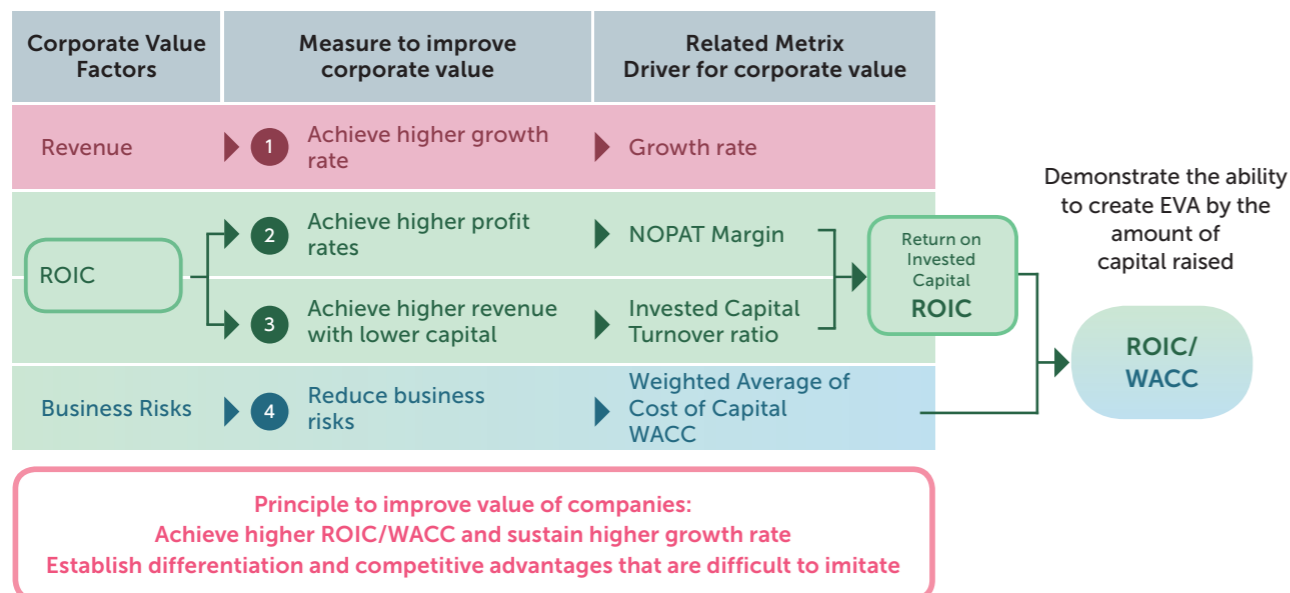
It is possible to calculate the shareholder value by combining the excess profit value obtained above, present value of the annual increase perpetual value and the shareholder value. The diagram is as follows.

▼ Decomposition of shareholder value by Excess Profit method



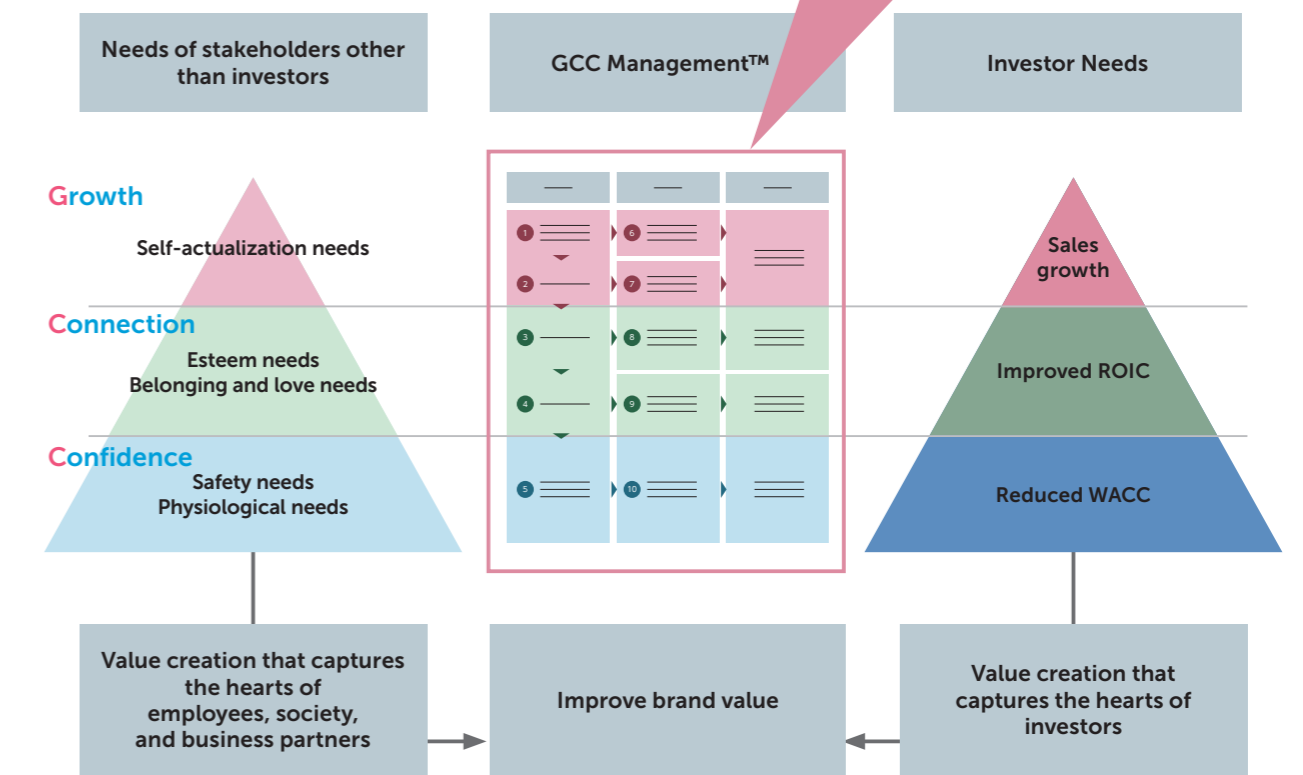
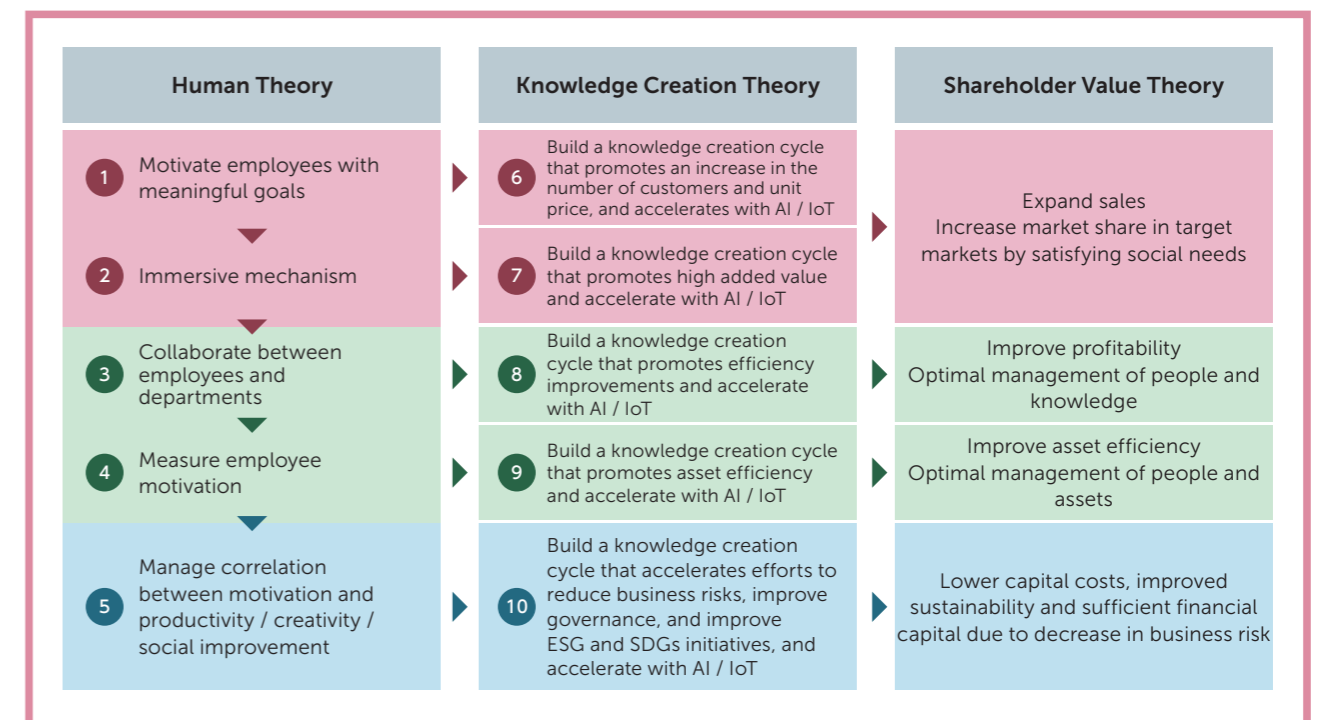
The following chart shows the idea of excess profit linked to the management perspective.

▼ Excess Profit Method and Corporate Value Improvement Management Framework



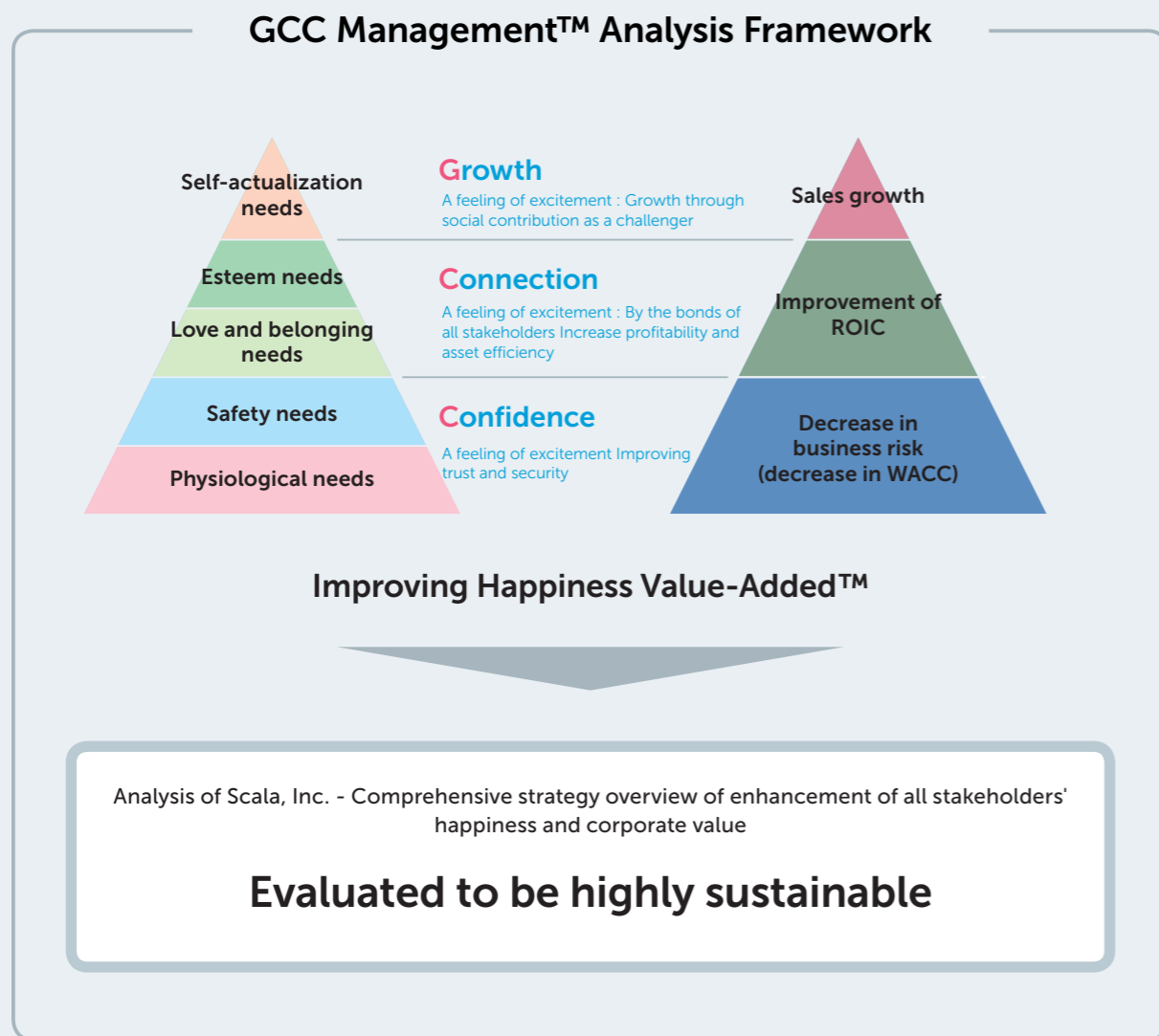
The following diagram shows the overall picture of GCC management™, which summarizes the three theories.

▼ Overview of theoretical basis of GCC Management™



The following figure shows a detailed analysis of the Scala Group's current strategy using the GCC Management™ analysis framework. It can be summarized as a highly sustainable strategy that pursues a virtuous cycle of happiness and improvement of corporate value. In the future, we will visualize and disclose future strategies with the following framework.

▼ The current status of the Scala Group viewed in the GCC Management™ framework



GCC Management™	Perspectives of needs = Happiness perspective	Social needs = Happiness	The needs of customers, employees, managers and traders = happiness		Shareholders' needs = Happiness	
		Sustainable formation of ESG / CSR / Societal / Human / Intellectual / Industrial / Financial Capital	The company's intrinsic strategy	Management (Numerical values / Financial indicators)	Sustainable formation of corporate value	
Growth In the AI / IoT era, all information will be converted into data, and based on that information, accurate demand forecasting and supply system construction will become possible, and businesses that meet social needs will develop more quickly. Scala is trying to develop a business that contributes to its development. Because there are many opportunities to commercialize more challenging and difficult needs, it is expected to develop into a company with many opportunities for employees to realize themselves. → Expanding sales growth	Self-actualization needs Since there are many opportunities to commercialize more challenging and difficult needs, it will be a company that provides many opportunities for employees to realize themselves	In the AI / IoT era Expect to contribute to social needs Formation of social capital	Focus on trends in social needs related to IT services in the AI / IoT era Optimize customization in all fields, matching people with companies, management resources and services Pursue unique positioning in a market / competitive structure with a customized cloud model Establish competitive advantage and difficulty in imitation through strong collaboration between salespeople and engineers	If the target market size is AI / IoT related, it will grow about 30% for the time being Expand market share with differentiated strategies	Revenue Growth potential Enjoy growth in AI / IoT related fields Growth rate of 15%-20% for 5 years and then decrease gradually, close to zero growth in 10 years	Growth ¥30.8 billion Shareholder value ¥46.7 billion Economic Value Added ¥9.1 billion Shareholders' equity ¥6.7 billion Market capitalization ¥13.8 billion Gap ¥32.9 billion
	By strengthening the connection between customers, salesmen and engineers, products and services with higher added value are developed and the esteem needs are satisfied	Connect people and businesses Achieve social and environmental harmony Contribute to the formation of human and intellectual capital in the AI / IoT era	Promote high added value Efficient value chain and organizational management R&D and new business can be executed boldly	Improve gross profit curb SG & A expenses Efficient upfront investment	Improve profitability Maintain operating profit at 10%-11% Improve ROIC from 11% to 16%	
	Social needs are fulfilled by strengthening the connection with customers and the connection between salespeople and salespeople	Connect people and businesses Achieve social and environmental harmony Contribute to the formation of industrial capital in the AI / IoT era	Shorten cash conversion cycle Efficient capital investment	Lower working capital turnover ratio Lower fixed asset turnover ratio	Improve invested capital turnover ratio Improve from 43.7% to 33.3%	
Confidence Stock-type, stable business, aiming for business which has a clear future and less insecurity = lower business risk = lower WACC	Has economic stability Security needs satisfied	Improve sustainability with subscription-based business Formation of financial capital	Reduce business risks by focusing on subscription-based business Improve fund-raising capabilities and implement attractive rewarding policy in a highly profitable subscription-based business	Reduce risk of fluctuations/sales/profits Promote M&A through effective use of interest-bearing debt	Reduce WACC	

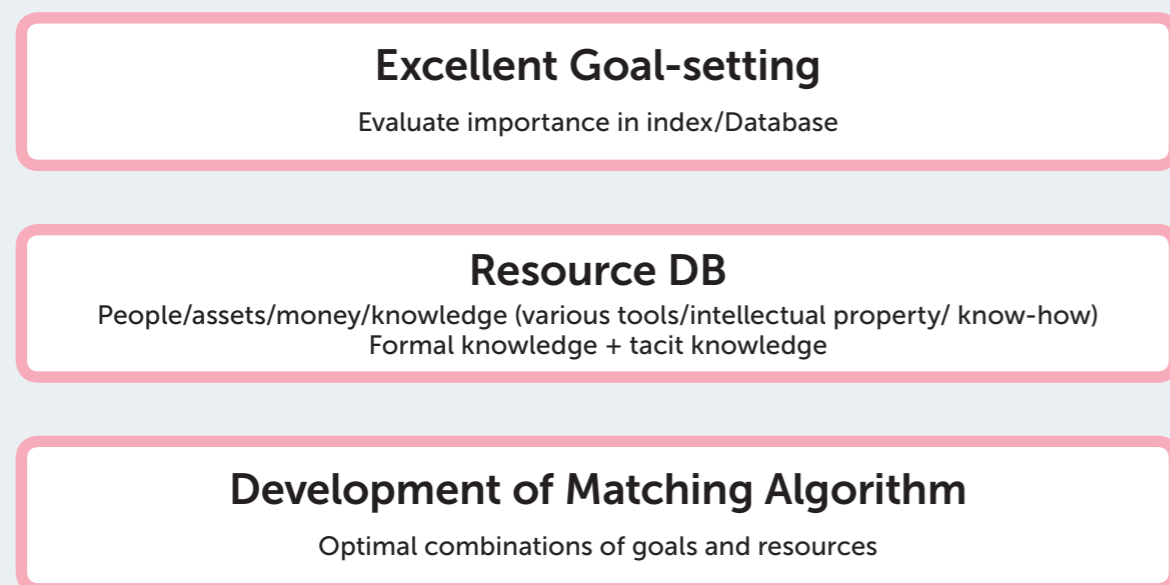
The idea of “Excellent Goal-Setting”

The importance of focusing on excellent goal-setting that are particularly important in social issues

The Scala Group will create a goal-setting/problem database of SDGs, policies, corporate visions, academic journals and past history relating to future global social issues. We will then quantify the social impact and urgency of these problems, prioritize them and develop a “Global Excellent Goal Index”. We would like to proceed with disseminating information both domestically and overseas, prioritizing difficult goals. In other words, this database will not only set the goals of the Scala Group, but will also be able to propose excellent goals that are extend beyond religion and race, aimed at global companies. Furthermore, more wisdom will create collective intelligence and more meaningful goal-setting can be established around the world by opening up this database to the general public. We wish to contribute to improving “the capability to determine real issues” globally.

During the next stage when the goal is decided, resources must be secured to move toward the goal “to uncover unnoticed true values”. Finally, we aim to build a system that proposes the optimal combinations of issues and resources. We will develop a database matching algorithm that supports all of these actions.

▼ Efforts towards excellent goal-setting



Scala Co-creating Shared Value

Aiming for continuous CSV improvement

By implementing the strategies described above and resolving social issues using our strengths, we can achieve a differentiation strategy that leads to sustainable corporate growth. This idea is based on the paper “Creating Shared Value (CSV)” (A strategy of common value that simultaneously realizes economic and social value) published by Harvard professor Michael E. Porter and Researcher Mark R. Kramer in 2011.

CSV is a management strategy in which a for-profit company pursues both economic incentives and solving social problems through its primary business and creates a synergistic effect between the two. We believe that there is no trade-off between economic and social benefits and, as a result of pursuing both simultaneously, new markets can be developed. In order for CSV to be successful, it is necessary to co-create with a wide variety of partners, including many companies and public institutions. A “society of diversity” is indispensable for solving large social problems.

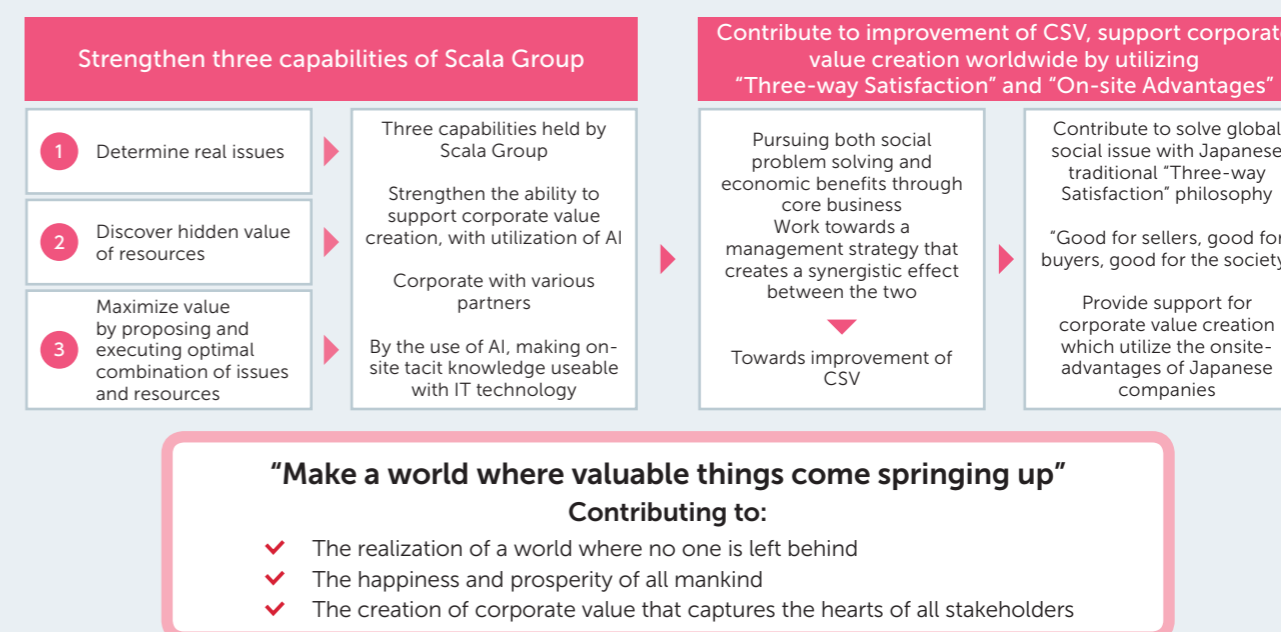
By strengthening Scala’s three capabilities and value

creation support capabilities as well as solving social problems with AI and cooperating with various partners, we will create new markets and bring out economic benefits. As a result, stock price will be maximized, thus satisfying investors.

We believe that this is consistent with the spirit of the traditional Japanese “three-way good” philosophy (“good seller, good buyer, good society”). We aim to spread this Japanese traditional management philosophy globally, and ultimately contribute to the realization of “a world where valuable things come springing up.”

In addition, Japanese companies are said to have the “tacit knowledge” of on-site capabilities. Tacit knowledge is unstructured data, which is difficult to apply to normal IT technology. However, if tacit knowledge can be structured using AI, it can be applied to management using IT technology. We believe that using AI to uncover unnoticed true value of on-site knowledge will lead to Japanese companies leveraging their strengths.

▼ What Scala Group aims for

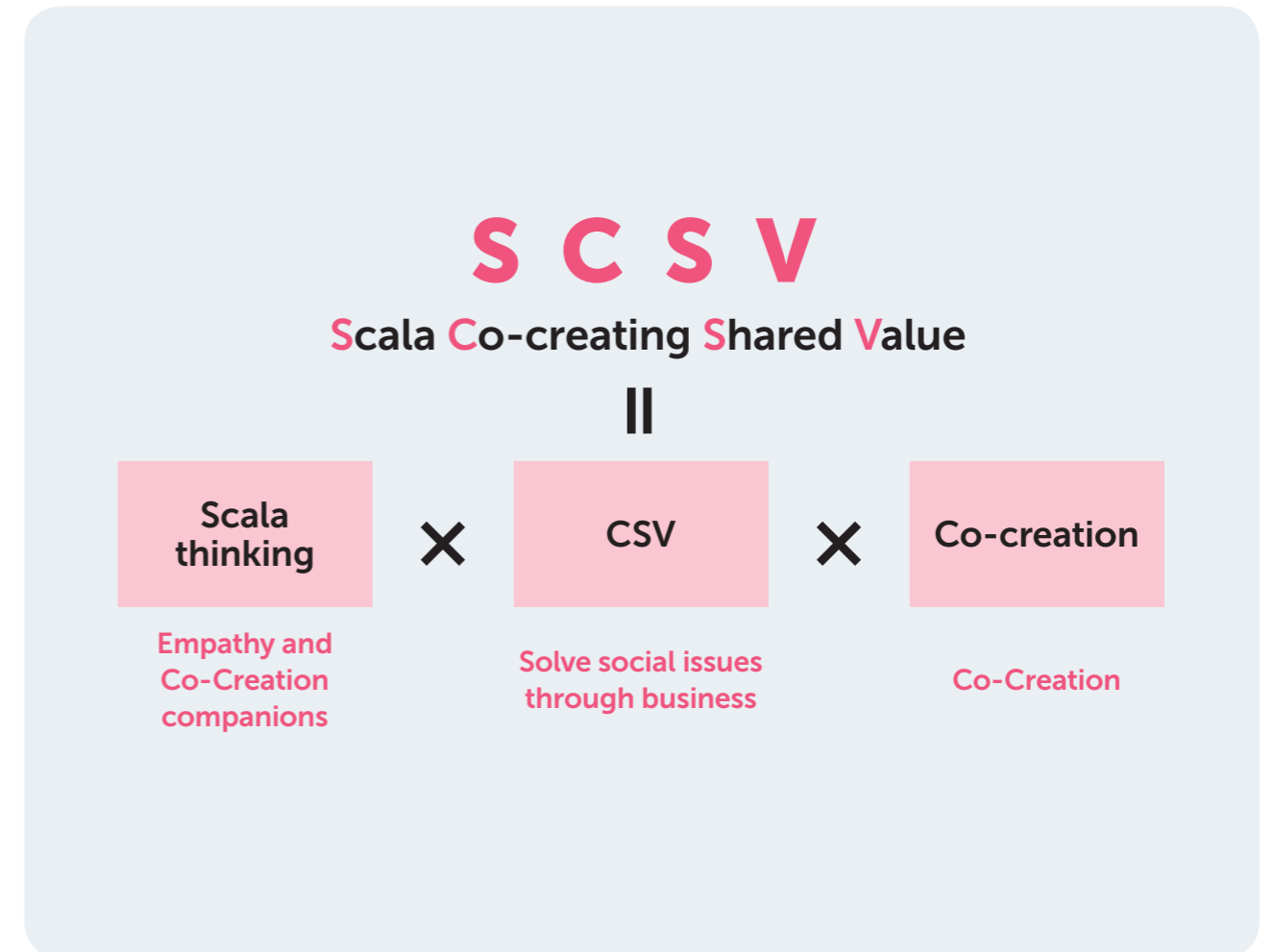


The Scala Group's value co-creation platform will attract a wide range of participants who share the ideas of the Scala Group. We will promote and pursue a CSV strategy (Co-creating Shared Value) that solves social problems in business ways, that is, simultaneously pursuing economic and social benefits.

We believe that sustainable development can be achieved by creating a new market, and we place emphasis on creating a "co-creative" environment. In order to involve every player and achieve "diversity and unity" as a business, not only should large companies and VBs (venture businesses) be positioned as

players who "creates value together" and are strongly encouraged to participate, but also academia, public support organizations, users and investors through the engagement fund. Without being confined to existing concepts, we emphasize the concept of Scala Co-creating Shared Value, which aims to "co-create" a new market with "TEAM JAPAN."

▼ Scala Co-creating Shared Value



Aiming for revenue of 500 billion yen by improving the three capabilities

So far: Leading the industry with communication tools utilizing the three capabilities

Promoting the “three strategies to grab the hearts of customers” for large companies

The Scala Group promotes “Three strategies to grab the hearts of customers” (1) optimum customization, 2) stress-free cloud computing, and 3) attractive monthly billing for approximately 1,000 large companies including listed companies in Japan. We have a top-class track record in providing cloud-based communication tools with enhanced SaaS / ASP. The three capacities have been strengthened by the following three capabilities: (1) the capability to determine real issues, 2) the capability to discover the hidden value of resources, and 3) the capability to maximize value by proposing and executing optimal combinations of issues and resources. As shown in the diagram below, the three capabilities will enable us to pursue “three strategies that grab the hearts of customers” and maximize shareholder value in the long term simultaneously. We believe that improving shareholder value over the long term is extremely important as it contributes to improving the sustainability of value provision capabilities.

Mechanisms that create differentiation and difficulty in imitation

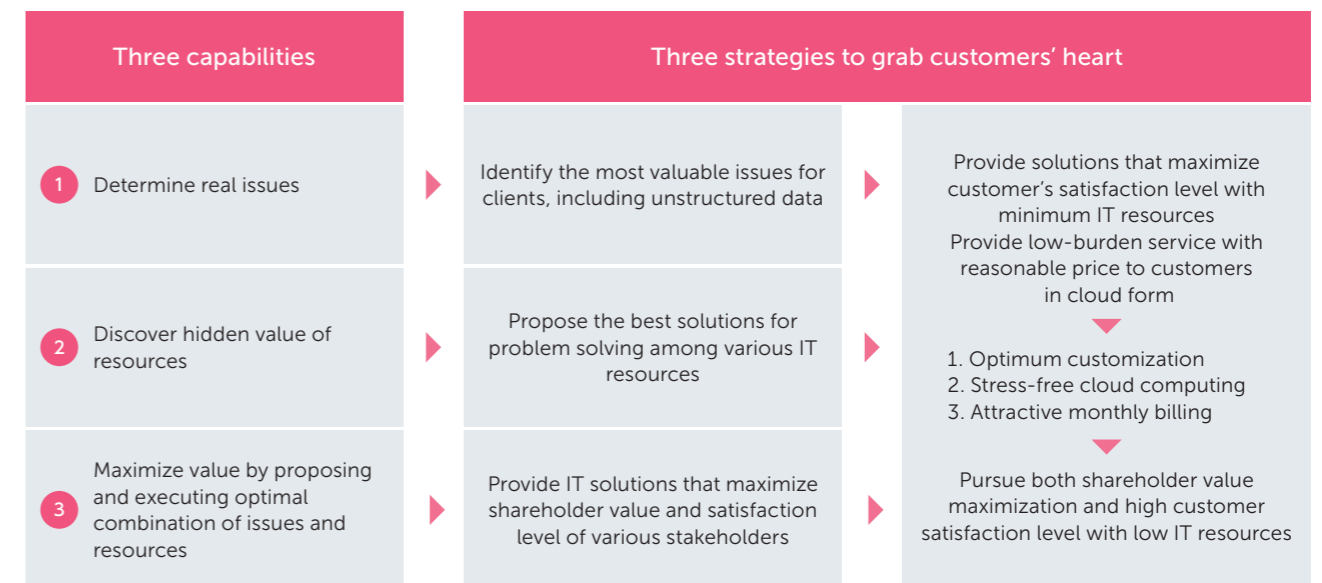
In the field of communication tools for large corporations, there is significant room for improvement in the optimal combinations of issues and resources, this is why the Scala Group has been able to achieve the top class performance in the industry utilizing the three capabilities mentioned above. The following figure shows the differentiation and imitation difficulty of the contract development type of a SaaS/ASP company and a general cloud-type SaaS / ASP company. We believe that there is no company on such a large scale as the Scala Group that operates using similar business models.

Cloud service providers primarily develop package products that cover the contents of the greatest common denominator, so customization is not usual. Also, if a customer requests customization, a high cost burden is required. Conversely, contract development companies do customization, but it is difficult to control costs in a form in which monthly billing is allowed, and attractive monthly billing is not common. Therefore, it can be said that the services established by the Scala Group, are less likely to be easily imitated by other companies. The following diagram shows the operation of the three capabilities at the operational level.

The value provided by the Scala Group contributes to improving the three capabilities for users

The communication tool provided in this way is a process for companies and individuals to discover people, resources and information that have the necessary value, which includes all of the following process: “Find/ Discover”, “Apply/ Purchase”, “Deliver”, “Check/ Inquire”, “Guide/ Recommend” and “Aggregate/ Analyze” Using these tools, the customers will be able to improve their ability to “determine real issues,” discover “valuable people/ resources/ information” for problem solving and make “combining problems and resources optimally” possible. In other words, it can be said that the users’ three capabilities are improved. The value of communication tools provided by Scala is thought to be the ability to increase users’ ability to optimally combine issues and resources. The following figure illustrates this idea.

▼ The three capabilities of the Scala Group and the background of becoming the industry leader



In the field of communication tools for large companies there was a lot of room for improvement in the optimal combination of issues and resources. Although as a late starter, Scala Group became the industry leader with these three capabilities.

▼ Differentiation and imitation difficulty of the Scala Group's business model

Scala differentiation strategy	Difficulty to imitate	
	General cloud-type SaaS/ ASP company	Contract development type company
Salesman and engineer worked closely to construct system	The method of developing SaaS / ASP products that cover the contents of the greatest common divisor in advance is the mainstream way, not so important to flexibly customize to best meet customer needs	Despite providing thorough customization, charge customers for all costs Inflexible style Customers bear high costs and burden of contract development costs is always a problem Difficulty to introduce cloud / monthly billing
Identify needs accurately Optimal customization with low-cost development		
Ensure excess profits despite product development		
Continuous customization Achieve stable profits with cloud/monthly billing	Minimize customized development, reduce additional development costs, and collect upfront investments with a monthly charge from customers	
Targeting large companies with three strengths New customer development / further exploration of existing customers	There is no pursuit of collaboration between salespeople and engineers to perform thorough customized development.	

▼ Mechanisms to strengthen the three capabilities so far

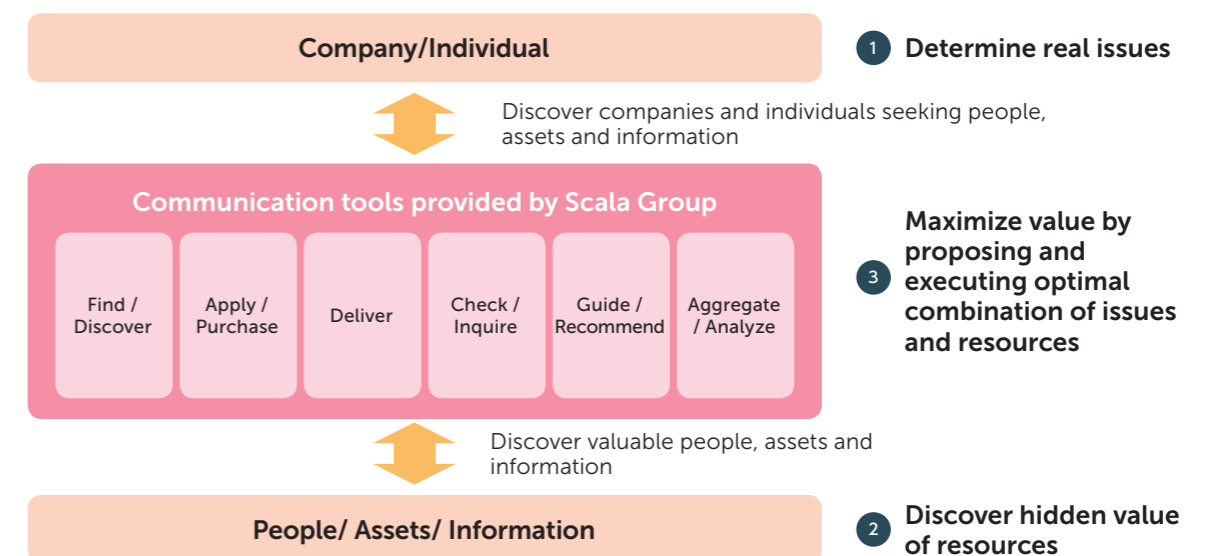


▼ SaaS / ASP business communication tool provided by Scala Group and the significance for users

Overview of SaaS / ASP business communication tools provided by Scala Group

Category	Service Name	Overview
Website support service	i-search	In-site search engine
	i-linkcheck	Invalid link detection system
	i-print	Website printout system
	i-linkplus	Related link view service
CMS (Contents management service)	i-ask	FAQ system
	i-catalog	Product site management service
	i-learning	E-learning system
	i-flow	Progress management, approval system
CRM service	LaCoon	Website construction platform
	i-entry	Comprehensive questionnaire CRM service
	dbecs	Web mailer for business use
	i-assist	Virtual assistance
Telephone-type service	i-livechat	Web chat system
	i-gift	Digital gift service
News delivery service	SaaS-type IVR	Automatic voice response
Data management / IP management	Corporate news	Providing important business information
	PatentManager	Patent management system
Site management	GripManager	Contract management system
	Fresheye	Search / information portal site
IoT / Big data	Safe driving diagnosis	Big data processing and management
SFA (Sales Force Automation)	e-Sales manager	Sales support system
Field marketing	Field activities, field research	Market research and store field activities
EC	Online card shop	Trading site for trading cards
Customer Support	Contact center	Customer support consulting

The Scala Group communication tool improves three capabilities of users



The Scala Group is aiming for growth in areas with three features

The Scala Group is aiming for growth in three distinct areas. The Scala Group, which promotes such strategies, has focused on solving problems with the three features shown in the diagram below, promoted differentiation, and as a result, developed a business which is subscription based and generates stable cash flow. The first feature is that there is a great need to explore the "true issues" behind the apparent issues. The second feature is that it is difficult to solve using the value of apparent resources, and it is necessary to determine the value of the hidden resources. The third feature is that because the best combinations of issues and resources are difficult to obtain, "it is necessary to have a mechanism to fill the gap and a

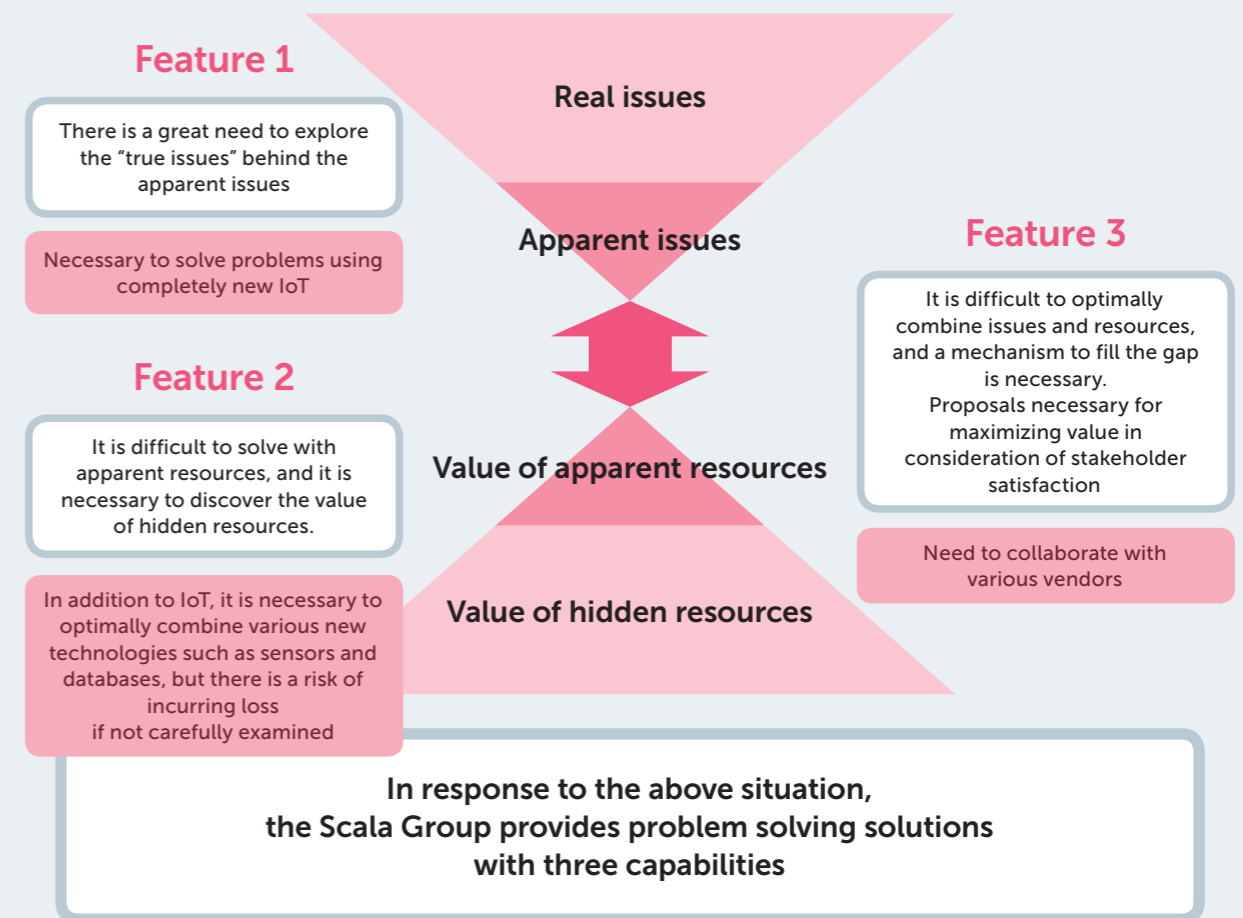
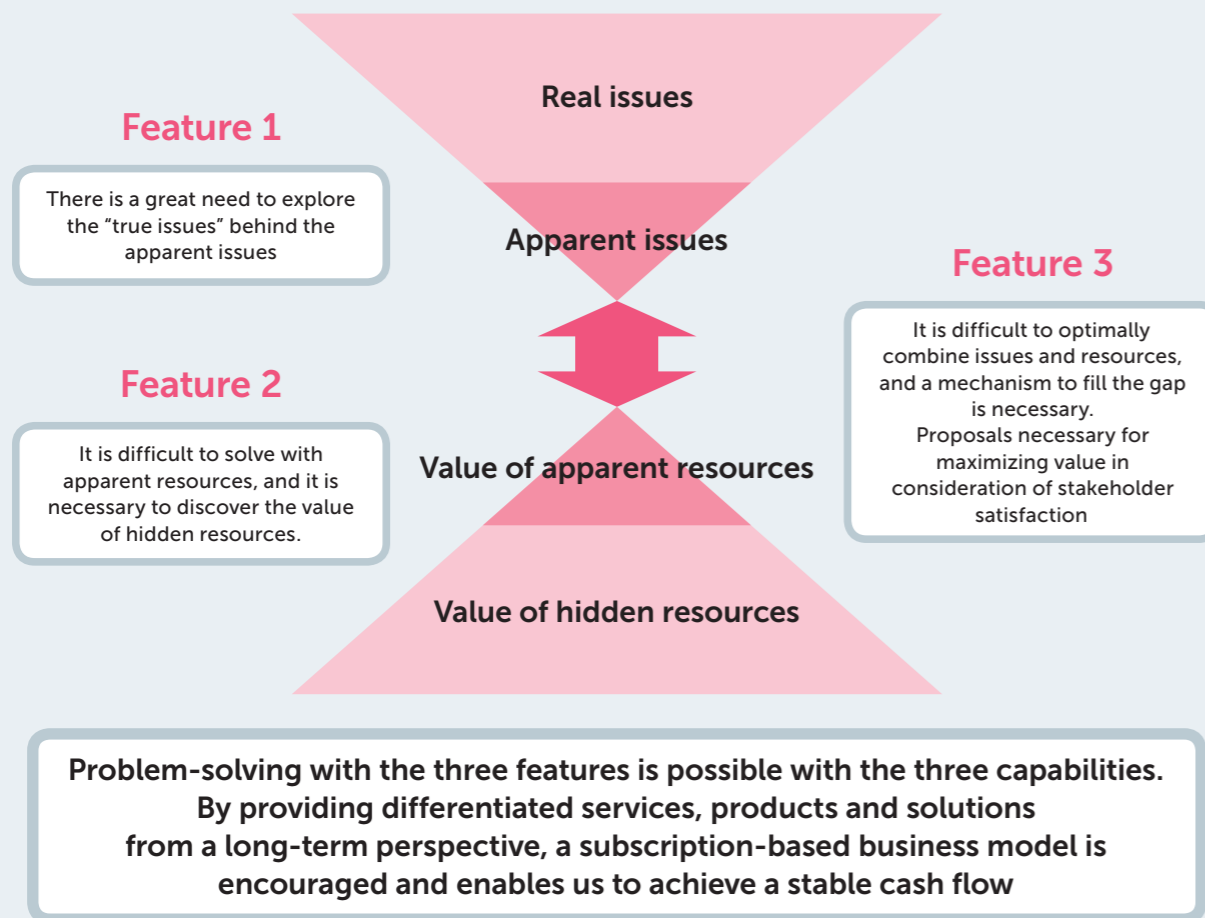
proposal to maximize value while taking into account the satisfaction of stakeholders". For issues with above features, three capabilities enable us to provide differentiated services, products and solutions from a long-term perspective, which promotes a subscription-based business model and enables us to acquire stable cash flow. The above features will be illustrated in the example below, which is a service we provided to a major nonlife insurance group. A transportation company, a customer of the insurance group, needed a management system to prevent driver accidents. Therefore, the group considered installing a device such as a drive recorder and building a system that contributes to reducing insurance premiums by preventing accidents. To start a new insurance service with the new system

and overtake other companies in the industry, initial development speed and continuous addition of functions were necessary. As a partner that has an abundant track record, stability, and vision to realize a new business synergy from the user's perspective, the Scala Group was consulted, and with the three capabilities, Scala was able to customize optimal combinations of issues and resources. As a result of meeting client needs, the Scala Group has grown into a business with annual sales of several hundred million yen. In this case, it was necessary to use IoT to solve the problem, and there was a great need to find the "true issue" behind the manifested problem. In addition to the IoT, it is necessary to optimally combine various new technologies such as sensors and databases, but there is a risk of incurring loss if the current resources

are not scrutinized carefully, making it necessary to determine the value of hidden resources. Furthermore, it was necessary to cooperate with various vendors, and it was difficult to optimally combine issues and resources, which makes a mechanism to fill the gap and a proposal to maximize value, as it is necessary to consider stakeholder satisfaction. For issues with these three features, the Scala Group can provide solutions with three capabilities, and as already mentioned, it met the customer's needs by customizing the optimal combinations of issues and resources.

▼ The type of problem solving that the Scala Group has focused on

▼ Three characteristics of the challenges faced by the major insurance group and Scala Group's solutions



From now on: Expand the targets of three capabilities and aim for sales of 500 billion yen

Up until now, Scala Group has grown by providing values in the following scopes of the three capabilities:

- Target of capacity (1) : Large Japanese companies
- Target of capacity (2) : IT resources within Scala Group
- Target of capacity (3) : Optimal problem-resource combinations of Scala Group and its customers

Going forward, as shown in the figure below, we will dramatically expand the scope of the three capabilities. The target of "the capability to determine real issues" covers not only Japan but also global markets, and all private companies, governments, municipalities, and NPOs. The scope of "the capability to discover the hidden value of resources" extends not only to internal resources, but also to external resources and AI / IoT in general, and moreover, the "people, assets, capital, and knowledge" involved in problem solving. The target of the ability to propose and implement the optimal combinations of issues and resources to maximize value not only covers customers and the Scala Group, but also all relevant stakeholders.

By expanding the scopes of the three capabilities, we will expand our business on a larger scale globally and realize high growth by determining real issues, discovering optimal resources necessary for resolution and combining optimal issues with resources. Specifically, we will focus on fields where high growth can be expected and a global market will be created on the scale of several hundred trillion yen such as (1) AI / IoT and 2) Social-problem-solving such as SDGs. We aim to achieve a revenue of ¥100 billion and operating income of ¥10 billion in the fiscal year ending June 2025, and revenue of ¥ 500 billion and operating income of ¥50 billion in the fiscal year ending June 2030. To achieve this, the three capabilities will be greatly enhanced.

▼ What are SDGs?

- ✔ SDGs is an abbreviation for "Sustainable Development Goals" and was described in the "2030 Agenda for Sustainable Development" adopted at the United Nations Summit in September 2015. It is an international goal from 2016 to 2030.
- ✔ Consisting of 17 major goals for realizing a sustainable world and 169 targets to solve the problems of the world and create a sustainable society, promising to leave no one behind.
- ✔ This has become a major trend for happiness that is being addressed around the world.

▼ Medium- and long-term targets for sales and operating income by expanding the scope of the three capabilities

Three capabilities	Up until now: targets and activities		From now on: targets and activities	
1 Determine real issues	Target	Large Japanese companies	Target	Japanese, global, all private enterprises, governments, municipalities, NPOs
	Activities	Direct sales	Activities	Sales, management consulting, media platform
2 Discover hidden value of resources	Target	Internal resources	Target	Internal, external resources, IT, AI / IoT in general, Provision of all (people, assets, capital, knowledge)
	Activities	Design, Execution, Operation	Activities	Design, Execution, Operation, Organization design, leader/employee education Capital investment, M&A advisory
3 Maximize value by proposing and executing optimal combination of issues and resources	Target	Scala Group and its customers	Target	Scala Group and its customers All related stakeholders
	Activities	Proposal and execution support of optimal matching	Activities	Proposal and execution support of optimal matching, AI-based matching, Investor relations support, market value maximization support

Among these, it will become a market of several hundred trillion yen in the next 10 years with the targets of Scala Group's three capabilities being met
Focusing on two fields: 1) Solution by means of AI / IoT ; 2) Solution to social issues such as SDGs

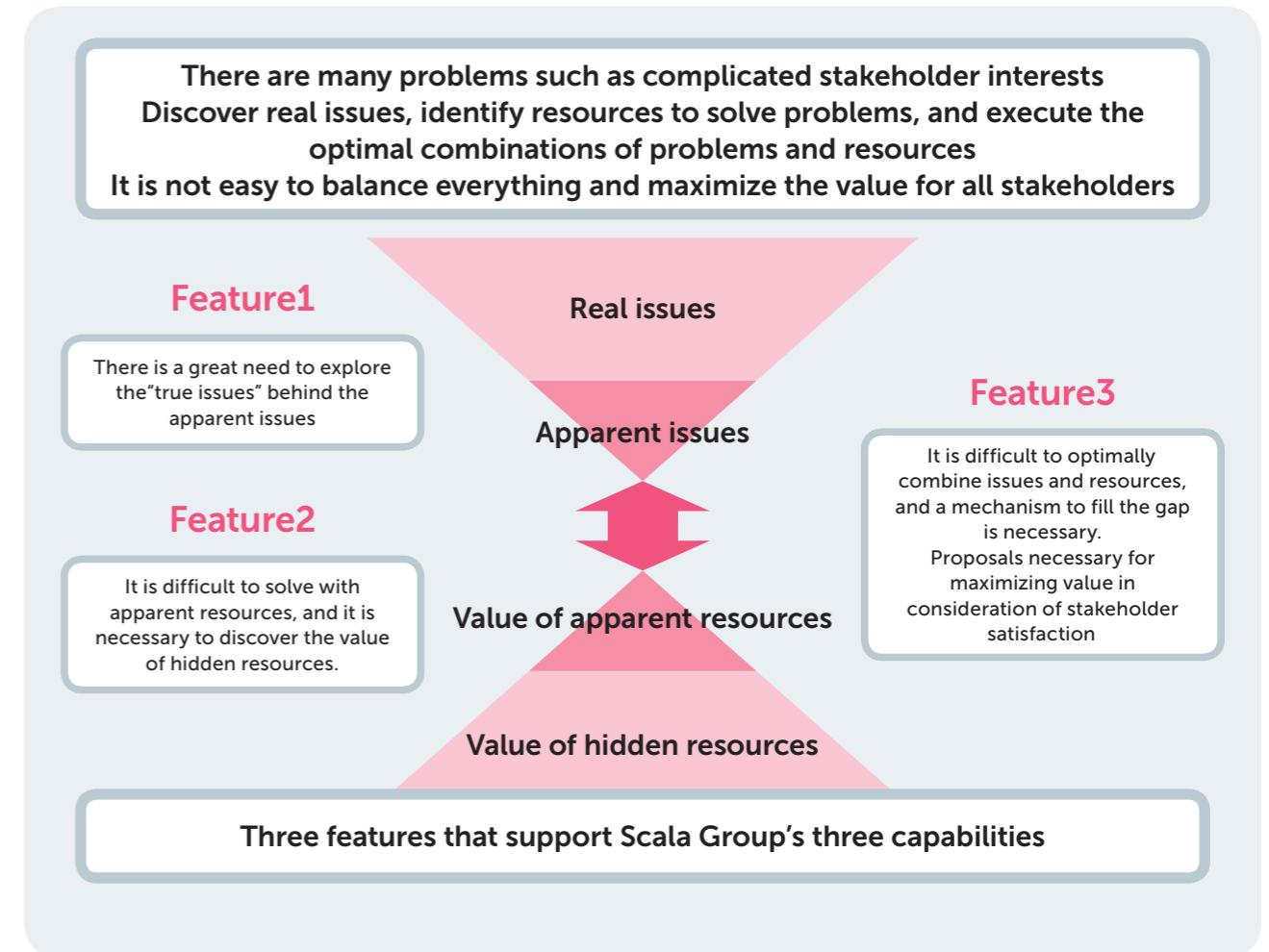
	Revenue Target	Operating profit targets
The year ending June 2025	100 billion yen	10 billion yen
The year ending June 2030	500 billion yen	50 billion yen

High-growth area: AI / IoT area and social-problem-solving areas such as SDGs

In the business of (1) AI / IoT and 2) areas of social-problem-solving such as SDGs, many problems exist where true issues are unclear, appropriate resources are not manifested, and the relationships of various stakeholder interests are complicated. It is not easy to recognize the real issues/challenges, identify the resources for problem-solving, implement the optimal combinations of issues and resources, and maximize the value for all stakeholders at the same time. For example, in the case of AI, according to McKinsey's analysis, it is predicted that a market of 13 trillion dollars (about 1,385 trillion yen¹¹) will emerge on the internet by 2030, while the costs incurred by loss of work and unemployment due to AI is expected to reach several hundred trillion dollars¹². We believe that the process of proposing the optimal combinations of issues and resources while considering maximizing the value of all stakeholders will become increasingly important. The SDGs are also expected to create a

\$ 12 trillion market by 2030, according to the Business & Sustainable Development Committee Report¹³. The SDGs need to consider the influence of a very wide range of stakeholders, as the emphasis is on "no one left behind". From the above-stated two fields to their related fields, we believe that we can realize great value creation opportunities by strengthening our following three capabilities 1) determining real issues, 2) discovering the hidden value of resources and 3) maximizing value by proposing and executing optimal combinations of issues and resources.

▼ Fields of social-problem-solving, such as SDGs and AI / IoT, have three targeted features



11 Calculated using the exchange rate as of August 4 (¥ 106.58/\$). The following dollar figures are converted into yen at the same rate.

12 MCKINSEY GLOBAL INSTITUTE "NOTES FROM THE AI FRONTIER MODELING THE IMPACT OF AI ON THE WORLD ECONOMY" September 2018

13 A better world than a better business" (January 2017) "Business & Sustainability Committee Report"

The direction to enhance the three capabilities and the framework of growth story

To realize the above goals, the Scala Group will greatly enhance the three capabilities. In the fiscal year ending June 2020, we will strengthen M&A, business alliances, cooperation with university research institutions, public support organizations, and other external partners. We will work on:

- 1 Building a value co-creation platform and strengthening the ability to determine real issues
- 2 Spanning targets from AI / IoT to people, assets, capital, and knowledge for the ability to create the buried value of resources
- 3 Strengthening the ability to build value creation stories and the ability to propose optimal combinations of issues and resources

1 Building a value co-creation platform and strengthening the ability to determine real issues

Specifically, we will build an issue database for each of the following SDG issues, and will understand what has the most impact on value creation. In addition, there are many cases where potential

needs cannot be made into a database immediately and are not structured, so we will strengthen AI analysis capabilities to handle unstructured data.

2 Spanning targets from AI / IoT to people, assets, capital and knowledge for the ability to discover the hidden value of resources

Currently, we are working with various external companies, partners, advisors, research institutes, and public support organizations, and applying resources from all "AI / IoT, people, assets, capital, and knowledge" to those issues, thus building a system to improve the ability to discover the hidden value of resources according to needs.

Special emphasis is placed on value creation and AI / IoT introduction support. We plan to provide management consulting, including value creation and AI / IoT introduction support at the same time. In order to collaborate with global AI / IoT research institutions and technology providers to customize and introduce optimal AI / IoT tools based on the results of the above, we provide one-stop support from execution to operation to maintenance (by providing logical, physical, organizational and communication design, as well as internal employee training and education). In addition, to support the above implementation, we will provide hands-on support by AI engineers

and data scientists with the team structure required for each project through CxO introducing personnel. We will create a one-stop support system for digital transformation through one-stop solutions with value creation management and AI / IoT consulting. The following is the solution system that will be built in the fiscal year ending June 2020.

A major move is the full enhancement of "money (capital)". In the future, we believe that AI will be indispensable for companies to achieve the optimal combinations of issues and resources in management. In addition to value creation and AI / IoT consulting, we are planning to expand investment fund business and management consulting business through M&A and launch an engagement fund that systematically supports value creation on an AI basis. We also set up a Corporate Venture Capital (CVC) to support the optimal combinations of venture and large companies.

▼ SDGs challenges and market size estimates in 2017

Item	Field	Goal	In 2017 price levels Market size (trillion yen)
1	Poverty	By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day	183
2	Hunger	By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round	175
3	Health	By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births	123
4	Education	By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes	71
5	Gender	End all forms of discrimination against all women and girls everywhere	237
6	Water/ Hygiene	By 2030, achieve universal and equitable access to safe and affordable drinking water for all	76
7	Energy	By 2030, ensure universal access to affordable, reliable and modern energy services	803
8	Growth/ Employment	Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries	119
9	Innovation	Develop quality, reliable, sustainable and resilient infrastructure, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all	426
10	Inequity	By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average	210
11	City	By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums	338
12	Production/ Consumption	Implement the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries	218
13	Climate change	Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	334
14	Marine resources	By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	119
15	Land resources	By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements	130
16	Peace	Significantly reduce all forms of violence and related death rates everywhere	87

▼ One-stop solution with value creation management + AI / IoT consulting

Three capabilities	One-stop solution for "corporate value creation + AI / IoT implementation consulting" Comprehensive support for digital transformation		
1 Determine real issues	Activities to be enhanced: Management consulting		<ul style="list-style-type: none"> Scheduled to provide consulting to simultaneously support the introduction of AI / IoT that directly improves corporate and shareholder value, with collaboration with companies with deep knowledge of AI / IoT among management consulting companies which introduce value creation management system to top executives Advising from perspectives of a wide range of stakeholders based on top management and on-site information Providing advice that takes negative aspects of AI into account
2 Discover hidden value of resources	Resources to be included and their activities respectively		Provide all resources including internal/external, AI / IoT, people, assets, capital, knowledge
	AI / IoT	<ul style="list-style-type: none"> Scheduled to provide consulting service that simultaneously supports value creation management consulting and AI / IoT introduction support In order to implement the most suitable AI / IoT tools after cooperating with global AI / IoT research institutions and technology providers, we provide one-stop support from execution, operation to maintenance (by provision of upstream, logical, physical, organization / communication design, and internal employee training and education) 	
	People	<ul style="list-style-type: none"> Provide hands-on support of AI engineers, data scientists according to needs for execution Introduction of CxO level talents for execution of above activities 	
	Assets (including Intellectual property)	<ul style="list-style-type: none"> Analyze AI / IoT intellectual property globally and make recommendations as needed 	
	Money (Capital)	<ul style="list-style-type: none"> Finance from the to-be-established engagement fund as needed 	
3 Maximize value by proposing and executing optimal combination of issues and resources	Activities to be enhanced 1) Build and implement a value creation system that enhances the satisfaction of all stakeholders		Introduction, Proposal / execution of value creation theoretical framework
	Activities to be enhanced 2) Comprehensive advisory that reflects the value creation system in stock prices		Further support to increase the stock price

3 Strengthening the ability to build value creation stories and the ability to propose optimal combinations of issues and resources

Investor relations are also important for realizing the ultimate value of listed companies, so we will enter the business to support integrated report creation, investor relations and sponsored securities analyst reports. Specifically, we will incorporate businesses with such functions through M&A.

▼ Overview of the three-capability enhancement plan for the fiscal year ending June 2020

Three capabilities	Enhancement measures in the fiscal year ending June 2020 and its significance		
1 Determine real issues	Strengthened activities 1): Management consulting Strengthened activities 2): Database Media platform		<ul style="list-style-type: none"> For social issues such as SDGs, build an issue database targeting areas where the optimal combination of issues and resources has not progressed, and based on that information, establish a media platform and strengthen the ability to search for true issues. As a management consulting firm, we will also contribute to strengthening the ability to propose the optimal combination of resources and issues and resources that contributes to problem-solving. Develop consulting to provide value creation management consulting and AI / IoT introduction support at the same time
2 Discover hidden value of resources	Resources to be included and activities		Provide all resources including internal/external, AI / IoT, people, assets, capital, knowledge
	AI / IoT	<ul style="list-style-type: none"> Collaborate with global AI / IoT research institutes and technology providers, in order to customize and introduce optimal AI / IoT tools, we provide one-stop support from execution to operation and maintenance by providing upstream/ logical/ physical/ organization/ communication design, internal human resources education and training 	
	People	<ul style="list-style-type: none"> In order to support the above implementation, providing hands-on support by introducing AI engineers and data scientists as necessary. Introduction of CxO personnel to support the above implementation 	
	Assets (including Intellectual property)	<ul style="list-style-type: none"> Introduce Venture company to large companies Provide technologies, etc. that contribute to solving problems using patent databases Establish business to support M&A, act as an intermediary for M&A and as a business partner for resources necessary to achieve management goals 	
	Money (Capital)	<ul style="list-style-type: none"> Establish an engagement fund and apply AI to increase value Launch CVC fund 	
3 Maximize value by proposing and executing optimal combination of issues and resources	Activities to be enhanced 1) Build and implement a value creation system that enhances the satisfaction of all stakeholders		Introduction, Proposal / execution of value creation theoretical framework
	Activities to be enhanced 2) Comprehensive advisory that reflects the value creation system in stock prices		Further support to increase the stock price

Dramatically improve the three capabilities of the Scala Group
Achieve high growth in (1) Solution by means of AI / IoT, (2) Solution to social issues such as SDGs

Fields to be realized in June 2020 : Explanation by segment

Business selecting to date is considered a segment and it can be grouped into three categories: (1) IT/ AI / IoT related business, 2) social-problem-solving business, and 3) value creation support business. (Note that this content has not yet been reflected in the court disclosure documents. As soon as the content is finalized in the fiscal year ending June 2020, it will be reflected in the court disclosure.)

Here is an overview of the initiatives that are expected to develop in each business area in the fiscal year ending June 2020.

IT / AI / IoT business: Aiming for revenue of 220 billion yen in the fiscal year ending June 2030

With the following business development, we will aim to achieve revenue of 220 billion yen in the fiscal year ending June 2030.

▼ Overview of IT / AI / IoT business

Main sub-segments	Overview	Revenue Target	
		The year ending June 2025	The year ending June 2030
SaaS/ASP	<ul style="list-style-type: none"> The core business of the Scala Group. Provide corporate communication tools with SaaS / ASP to 1,000 large enterprise customers Together, provide comprehensive advice on value creation which incorporates AI-based natural language analysis, and will strengthen it as a one-stop service that provides AI / IoT design, installation and operation with the understanding of top executives 	60 billion yen	220 billion yen
SFA	<ul style="list-style-type: none"> Developed by consolidated subsidiary Softbrain [TSE First Section: 4779]. Provide sales support system. Won first place in business improvement, installation effect, service and system satisfaction. Evaluated with No.1 in overall satisfaction as CRM / SFA. Supported by a wide range of customers from large companies to small and medium-sized companies, regardless of scale, industry, or business format, and has a transaction record of over 5,000 companies. 		
Field Marketing	<ul style="list-style-type: none"> Developed by Softbrain Field Co., a consolidated subsidiary of Softbrain [TSE First Section: 4779]. Provides sales support and market research by registered staff nationwide. Agency for sales promotion and sales, based on data gathered from all over the country using methods such as mystery shoppers and store surveys, in addition to supporting sales and recruitment. 		
Call center and others	<ul style="list-style-type: none"> Performs call center consulting and entrusted system development. Aims for high growth by strengthening AI / IoT in analysis methods and information collection methods. 		

* Researched by ESP Research Institute, Inc. May 2018 Males and females in their 20s and 60s / Company managers / executives / group executives, company employees / group employees (including temporary employees and contract employees) / CRM / SFA users / 300 people / Web questionnaire

Thoroughly utilize the sales base of 5,000 large companies

These businesses are currently based on existing consolidated businesses. We have 5,000 customers, primarily large companies. In the fiscal year ended June 30, 2019, revenues were ¥ 17.1 billion, and we are developing information-related services such as communication tools and sales support tools. In the fiscal year ending June 2020, we will expand AI / IoT-related services and aim for dramatic growth based on our existing business foundation.

Realize high growth in cooperation with management consulting companies with deep knowledge of AI / IoT

In collaboration with the Value Creation Comprehensive Advisory Business, which will be described later, we will develop corporate value

creation consulting through customized AI / IoT in combination with consulting for corporate value creation. The most important aspect of AI / IoT deployment is to incorporate it smoothly at the operational level in line with each company's culture and management philosophy. We plan to cooperate with companies that are well-proven external partners in corporate value management consulting and have deep knowledge of AI to promote the understanding of top management, provide advice that matches on-site operation, and train the AI talent and scientists who are needed for design, implementation and operation.

In order to collaborate with global AI / IoT research institutions and technology providers to customize and introduce optimal AI / IoT tools, we provide one-stop support from execution to operation to maintenance (by providing , logical, physical, organizational and communication design as well as internal employee training and education).

Value Creation Management Support Business: Aiming for revenue of 180 billion yen in the fiscal year ending June 2030

With the following business development, we aim to achieve revenue of 180 billion yen in the fiscal year ending June 2030.

▼ Overview of Value Creation Management Support Business

Main sub-segments	Overview	Revenue Target	
		The year ending June 2025	The year ending June 2030
Compressive advisory of value creation	<ul style="list-style-type: none"> One-stop consulting for people, assets, capital, and knowledge based on theories of psychology, knowledge creation, information mathematics, and the theory of improving shareholder value. For assets, we collaborate with CVC to match the necessary technologies, and further provide M&A advice. Comprehensive analysis and proposals for the possibility of increasing corporate value by introducing AI / IoT Comprehensive advice on concept/ logical and physical design in cooperation with IT / AI / IoT business Perform human resources and organization, training / leader development business, provide human resources development advice closely linked to value creation management, and CxO level personnel introduction as needed Advise on communication design and organizational design based on knowledge creation theory Develop comprehensive M&A advisory services using large corporate networks 	30 billion yen	180 billion yen
Fund	<ul style="list-style-type: none"> Invest in companies that have the potential to increase value in value creation comprehensive advisory operations to gain capital gains. Reflecting shareholder value up to market capitalization with investors-facing communication support 		
	<ul style="list-style-type: none"> Invest in large companies and ventures that contribute to solving social problems Achieve a reliable exit with IT / AI / IoT business, social problem solving business, and collaboration with value creation comprehensive advisory business 		
Investors-facing communication support	<ul style="list-style-type: none"> Collaborate with the Comprehensive Value Creation Advisory Business to create equity stories, sponsored securities analyst reports and Integrated Report, support briefing sessions, set up investor meetings Development of automatic generation system for securities analyst reports using AI 		

Value creation advisory business

In this area, we will work together with companies with proven track-records of conducting value creation advisory. Based on the theory of psychology/ knowledge creation, information mathematics, and the theory of improving shareholder value, we will provide one-stop comprehensive advice while considering people, assets, capital, and knowledge. For assets, we will collaborate with CVC (Corporate Venture Capital), which will be established to match necessary technologies and intellectual property, and to provide M&A advice. We will comprehensively analyze and propose the possibility of improving corporate value by introducing AI / IoT. We will also cooperate with IT/ AI / IoT business to provide comprehensive advice on areas like concept, logical and physical design. To that end, we will promote the project in the following five steps to lead to success.

▼ Five steps for introducing AI

- 1 Execute the pilot project that is expected to be most effective for gaining propulsion
- 2 Build an in-house AI team
- 3 Provide a wide range of AI training
- 4 Develop AI strategy
- 5 Develop internal and external communication

The most important step is step 1. It is important that the direction of the value creation system is established as a precondition for this, and we will identify this point in the Value Creation Advisory business.

We also conduct business in human resources, organization, training and leadership development, and provide human development advice closely linked to value creation management and introduce CxO level human resources as necessary. We will also advise on communication design and organizational design based on knowledge creation theory. It is expected that many jobs will be lost due to the introduction of AI, so we will consider retraining and

the relocation of those who lost jobs due to AI. We will continue to provide advice that emphasizes raising satisfaction levels of all stakeholders in the long term.

Fund business

We will expand our engagement fund and CVC. By collaborating with companies that already have a track record, we aim to expand business development as soon as possible. We will invest in companies that have the potential to increase value under our comprehensive value creation advisory and aim for capital gains.

We aim to ensure a return increase by reflecting shareholder value up to market capitalization by supporting communication with investors. CVC invests in large corporations and ventures that contribute to solving social problems and works with IT / AI / IoT businesses, social-problem-solving businesses, and comprehensive value creation advisory businesses to ensure a secure exit.

Communication support business for investors

When a customer is a listed company, communication with investors is extremely important in addition to realizing the hidden value. In this respect as well, we will expand our business while working with experienced advisory companies. In collaboration with the comprehensive value creation business, we will support the formation of market capitalization which comprehensively reflects shareholder value by creating equity stories, supporting integrated report creation, briefing sessions, identifying optimal investors and setting up investor meetings through AI, and creating sponsored securities and analyst reports.

Social problem-solving business: Aiming for sales revenue of ¥ 100 billion in the fiscal year ending June 2030

With the following business development, we aim to achieve revenue of ¥ 100 billion in the fiscal year ending June 2030.

▼ Overview of social-problem-solving business

Main sub-segment	Overview	Revenue Target	
		The year ending June 2025	The year ending June 2030
Target: Developing countries	Health	10 billion yen	100 billion yen
	Education		
Environmental problems	<ul style="list-style-type: none"> Establish a comprehensive information platform with issue database, resources database, and optimal combination advisory function to solve environmental problems from a broad perspectives based on the theory of resources circulation which is based on microorganism-based biotechnology such as algae Collaborate with various organizations dealing with environmental issues, research institutions, and large companies with technology Coming under SDGs water / sanitation / energy / innovation / climate change / marine resources / terrestrial resources. Market size ¥ 1,888 trillion * as of 2017. 		
Regional revitalization	<ul style="list-style-type: none"> For local cities in Japan and overseas, collaborate with local governments, regional banks, and SMEs to support local culture succession issues, from regional revitalization to nationwide development. Ripple effect analysis using input-output tables Establish a matching platform for human resources / money / culture transmission. Establishing a network of young talents and local culture successors Support with cultural media, matching platform, and optimal team building system. Cooperation with local government budgets and regional banks Applied value creation to local culture / technical projects Coming under: SDGs growth / employment / inequality. Market size 329 trillion yen * as of 2017 		
Investment fund	<ul style="list-style-type: none"> Invest in things that can be commercialized and aim for capital gains 		
Patent, Intellectual Property Database	<ul style="list-style-type: none"> Create a database of patents and intellectual property related to fields that contribute to solving social problems, and generate matching algorithms using AI. Support the optimal combination of issues and resources 		

* Deloitte Tomatsu, <https://www2.deloitte.com/jp/ja/pages/about-deloitte/articles/dtc/sdgs-market-size.html>

Projects for developing countries: Focus on health and education

In this field, "Health" and "Education" will be specifically addressed in the fiscal year ending June 2020. First, with regard to "Health", we will develop safe and secure environments (food culture/ hygiene environment/ health awareness/ improving insurance systems) in developing countries and develop businesses that contribute to the creation of a better local country. The practice has already begun in Myanmar, and if successful, it will be expanded to other countries.

In developing countries, there are many patterns of illness due to challenges in healthy eating habits; however, medical expenses are relatively high and there is a shortage of doctors. Thus, there are many cases where a vicious circle of inability to receive treatment has occurred.

In this case, we aim to enlighten the cooking method using local ingredients as recipes for healthy Japanese dishes, etc., and at the same time, gather personal health data, analyze health status, convert it into insurance data, cooperate with major insurance companies and commercialize the insurance business. We support constructing a system that can cover insurance for large numbers of people who are sick. As for medical care, in order to compensate for the shortage of doctors, we aim to establish a remote treatment system in cooperation with medical care in developed countries using image recognition technology. In order to commercialize them, we will find excellent local human resources from human resources connections and build a value chain from the network of local partner companies.

In addition, we aim to improve the overall health level starting with healthy meals through community sites, smartphone apps, and IoT/ big database/ AI learning platforms. We will provide financial support by utilizing funds from the engagement fund and subsidies from nations and local governments. Ultimately, we will support the development of the overall health industry. The impact of the specific value creation will be quantified by quantifying the inflow of human resources and inflow conversion process consulting, aiming to contribute to an increase in per capita income. These are SDGs in the field of health / water / sanitation / growth / employment, and the market size, as of 2017, is 318 trillion yen¹⁴.

Regarding education, we will commercialize the creation of entrepreneurs and contributions to

local development by providing business-related education such as IT and management. We support the education of business people, education-related organizations, and local educators by promoting efficient educational programs for creating entrepreneurs.

Educational hurdles will be reduced through digitalizing teaching materials, e-learning, analyzing learning results, and competition awareness apps. We are planning to introduce funds from human resources companies, nations, and governments. We will also conduct process consulting for becoming advanced countries by quantifying productivity. It corresponds to the education field of SDGs, and the market size as of 2017 is 71 trillion yen.

Environmental issues

We are scheduled to establish a comprehensive information platform with issue database, resources database, and optimal combinations advisory function to solve environmental problems from a wide range of viewpoints based on the theory of resources circulation based on microorganism-based biotechnology such as algae. We collaborate with various organizations, research institutions, and large companies with technology that handles environmental issues corresponding to the following SDG areas: water and sanitation/ energy/ innovation/ climate change/ marine resources/ terrestrial resources. The market size as of 2017 is 1,888 trillion yen. The image is as follows.

Regional creation

For local cities in Japan and overseas, we will collaborate with local governments, regional banks, and small and medium enterprises to support local culture succession issues and develop businesses that contributes to regional revitalization and nationwide development. We will build a matching platform for human resources/ monetization/ culture. We will build a network of young talent and a network of local culture successors and develop human resources who can promote the business locally. We provide support through cultural media, matching platforms, and optimal team building systems, as well as work with local government budgets and regional banks to promote the creation of application value in other businesses of local culture/ technology. It corresponds to the growth, employment/ inequality of the SDGs. The market size as of 2017 is 329 trillion yen.

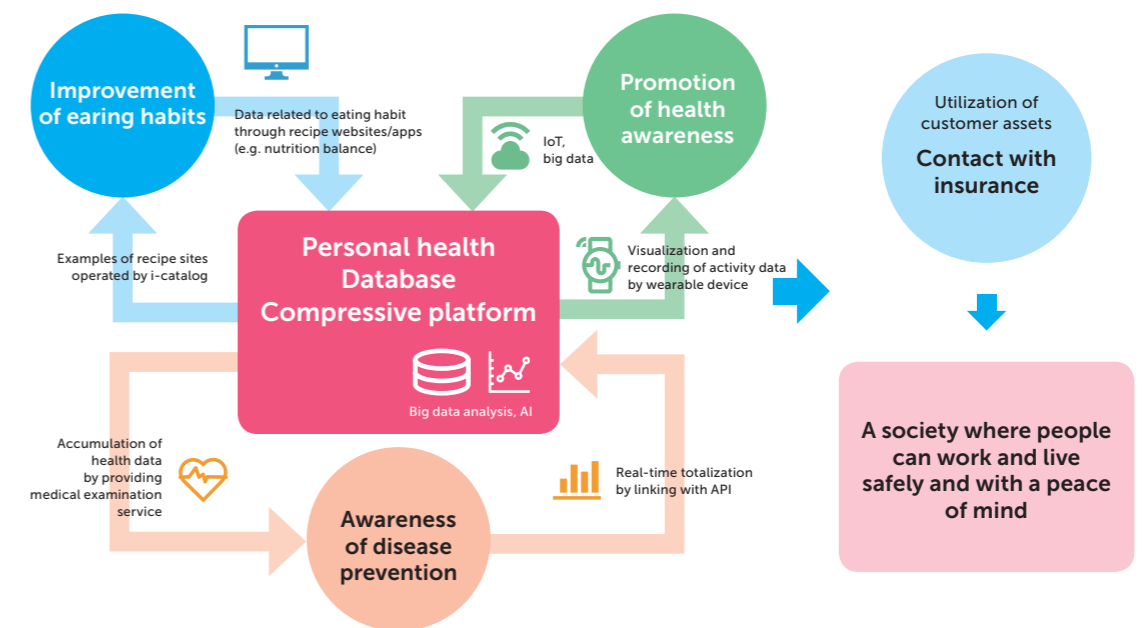
Investment fund

In the social problem-solving business, if there is a need to establish a separate business entity, we will establish an investment fund to provide financial resources and aim for long-term capital gains.

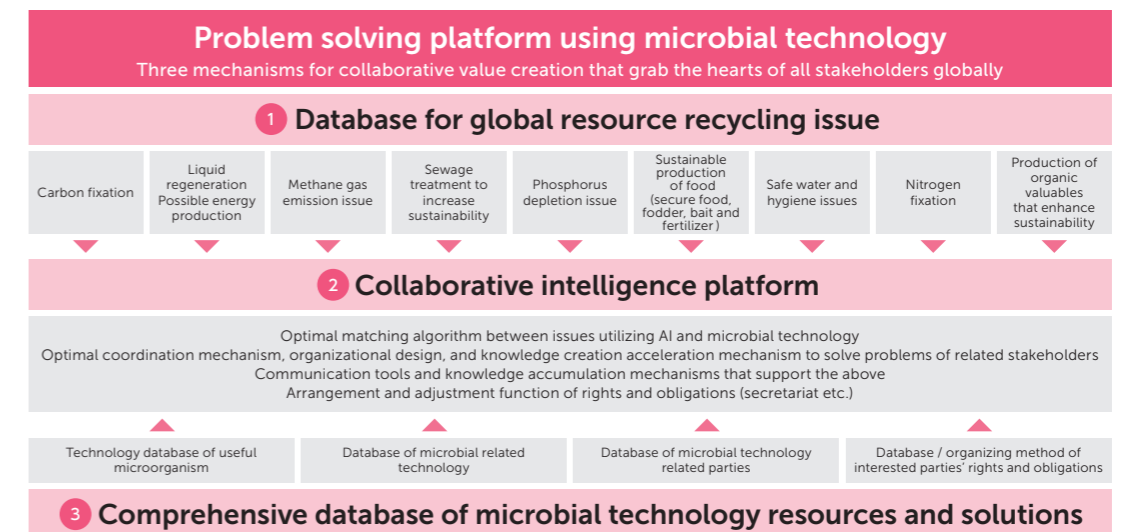
Patent Intellectual Property Database

We will create a database of patents and intellectual property related to fields that contribute to solving social problems, generate matching algorithms with AI, and support the optimal combinations of resources for the challenges in each of the above initiatives.

▼ Projects for developing countries: For "Health," initiatives have already been specifically aimed at in Myanmar



▼ Resolve environmental issues with microbial technology



¹⁴ Deloitte Tomatsu, <https://www2.deloitte.com/jp/ja/pages/about-deloitte/articles/dtc/sdgs-market-size.html>, same as below

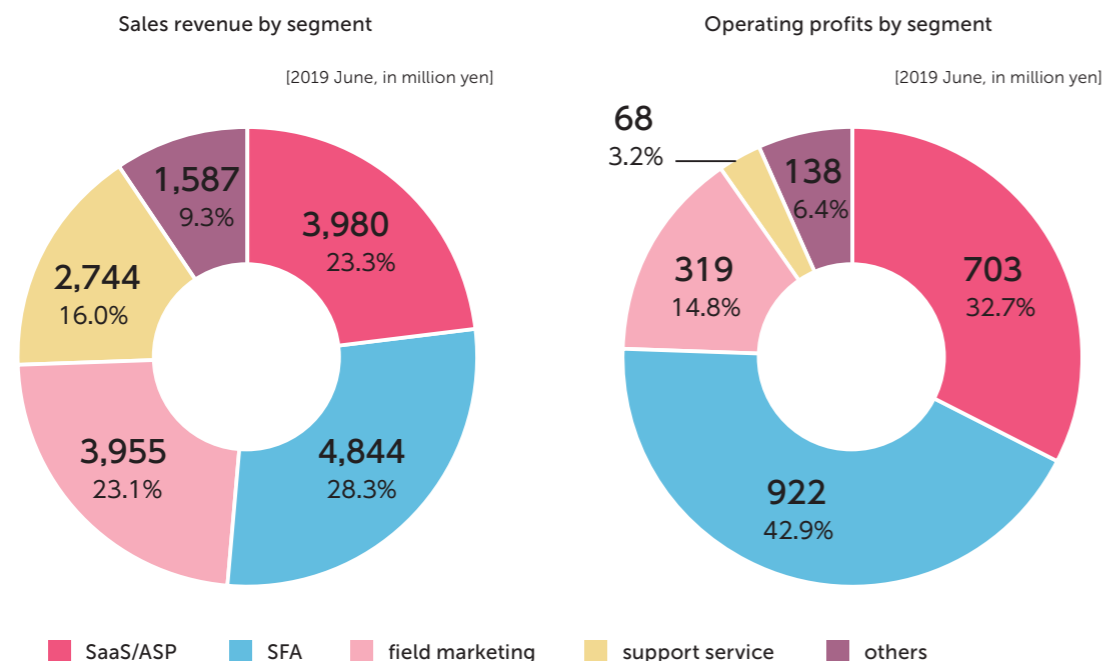
Overview of existing primary businesses

The Scala Group is currently working on five businesses. These will be developed as IT / AI / IoT / businesses.

▼ Business description of Scala

Business segment	Business description
SaaS/ASP	Provision of SaaS/ASP-type services that use the automated voice technologies in the browser, telephone, fax, etc. over the Internet or telephone lines
SFA	Provision of services such as the licensing of the sales support system, cloud services, customized development, marketing consulting, marketing skill training, and operation consulting and education by using iPad and other tools
Field marketing	Provision of services related to field activities, marketing research, etc.
Customer support	Provision of one-stop consulting services related to customer supports, such as call center operations and diverse BPOs
Other	Provision of the EC website for buying and selling battle-type trading cards; contracted development of software; publishing business-related books, etc.

▼ Net sales and operating income by segment



SaaS/ASP Business

Business Overview and Trends in Major Services

We offer SaaS / ASP type services using automatic voice technology such as Web, telephone, fax through the Internet and telephone lines. This allows applications to be used over telephone lines and the Internet without large-scale capital investment. The main products include "i-search," a search engine that can improve the ease of viewing by displaying images and guide users accurately. The system called "i-ask" enables users to solve their problems by registering frequently asked questions in advance on

the company site, and the "IVR" system that makes automatic responses in response to voice calls on the corporate telephone. In addition, as a service related to IoT and big data, we provide big data processing and management services for the safe driving support service "Smiling Road," sold by Sompo Japan Nipponkoa Insurance, Inc. As already shown, we provide comprehensive services related to all communication tools for client companies as follows.

▼ List of service provided by SaaS/ASP Business

Category	Service Name	Overview
Website support service	i-search	In-site search engine
	i-linkcheck	Invalid link detection system
	i-print	Website printout system
	i-linkplus	Related link view service
CMS (Contents management service)	i-ask	FAQ system
	i-catalog	Product site management service
	i-learning	E-learning system
	i-flow	Prosperity management, approval system
	LaCoon	Website construction platform
CRM service	i-entry	Comprehensive questionnaire CRM service
	dbecs	Web mailer for business use
	i-assist	Virtual assistance
	i-livechat	Web chat system
	i-gift	Digital gift service
Telephone-type service	SaaS-type IVR	Automatic voice response
News delivery service	Corporate news	Providing important business information
Data management / IP management	PatentManager	Patent management system
	GripManager	Contract management system
Site management	Fresheye	Search / information portal site
IoT / Big data	Safe driving diagnosis	Big data processing and management
SFA (Sales Force Automation)	e-Sales manager	Sales support system
Field marketing	Field activities, field research	Market research and store field activities
EC	Online card shop	Trading site for trading cards
Customer Support	Contact center	Customer support consulting

Business model that sets other companies apart

Discover customers' real challenge and needs through direct sales

Direct sales business accounts for 80% of Scala Group's sales, taking the needs of each company into consideration and adding individual customization from the minimum required packages. This customization not only uncovers the apparent needs but also potential needs, and we propose to "find real issues" and "discover the hidden value" of internal IT resources and propose the optimal combinations of issues and resources to maximize value. As previously mentioned in detail, the Scala Group provides customized services despite being in the SaaS / ASP business. This is achieved by carefully listening to customer requests and customizing them in close proximity. With conventional SaaS / ASP service, only uniform service without customization is provided for each customer. Through customization, the Scala Group can greatly differentiate itself from other companies. This business model is made possible by direct sales, which accounts for about 80% of the total sale. The Scala Group is based on the principle that sales staff visit customer companies and sell directly, where sales representatives can talk to customers, and engineers are in direct contact with real users, so they can accurately determine customers' needs and "find real issues". This allows Scala to directly understand and resolve the needs of customer companies.

Scala Group products that do not compete with other companies

Typical products of the Scala Group include "i-search" and "i-ask." "i-ask" is a FAQ system, which is also offered by major IT companies. In general, when you create a new service, you try to determine and exceed the capabilities of the pioneering IT product, but this process incurs high developmental costs. In addition, when developing the products, the existing companies may further expand, which makes catching-up difficult or impossible. The Scala Group, on the contrary, offers significantly fewer initial functions than existing companies, but "finds out the true issues", "discovers the hidden value" of the internal IT resources, proposes optimal combinations of the issues and resources to maximize value through customization. As Scala prioritizes customers over products, there is no need to compete with other companies' products and costs can be kept low.

Expansion from hook products to wide usage

The Scala Group positions "i-search" and "i-ask" as hook products. Although sales of these two products are limited, we expose customers to the attractiveness of the Scala Group by using these products, which stimulates interest in future products. An example is Sompo Japan Nipponkoa Insurance, Inc. Initially, this customer started by using "i-search." Currently, dozens of our services are provided to Sompo Japan Nipponkoa, with usage amounting to tens of millions of yen per month.

Improved earnings stability with high long-term usage rate by customers

As previously mentioned, at Scala Group, sales representatives visit customers regularly, including in the early stages of service development. Scala Group also responds immediately to complaints when they arise. This increases customer satisfaction, so that most companies use Scala's services for a long time.

Increase customer satisfaction by diversifying services

With the know-how accumulated by responding to the demands of many customers, we have established many service lineups at low cost. Customer unit price and customer satisfaction increased by linking multiple services. We are also eager to provide unprecedented services and meet the needs that major companies find difficult to respond to due to their subdivided departments.

Further evolution and development of SaaS / ASP

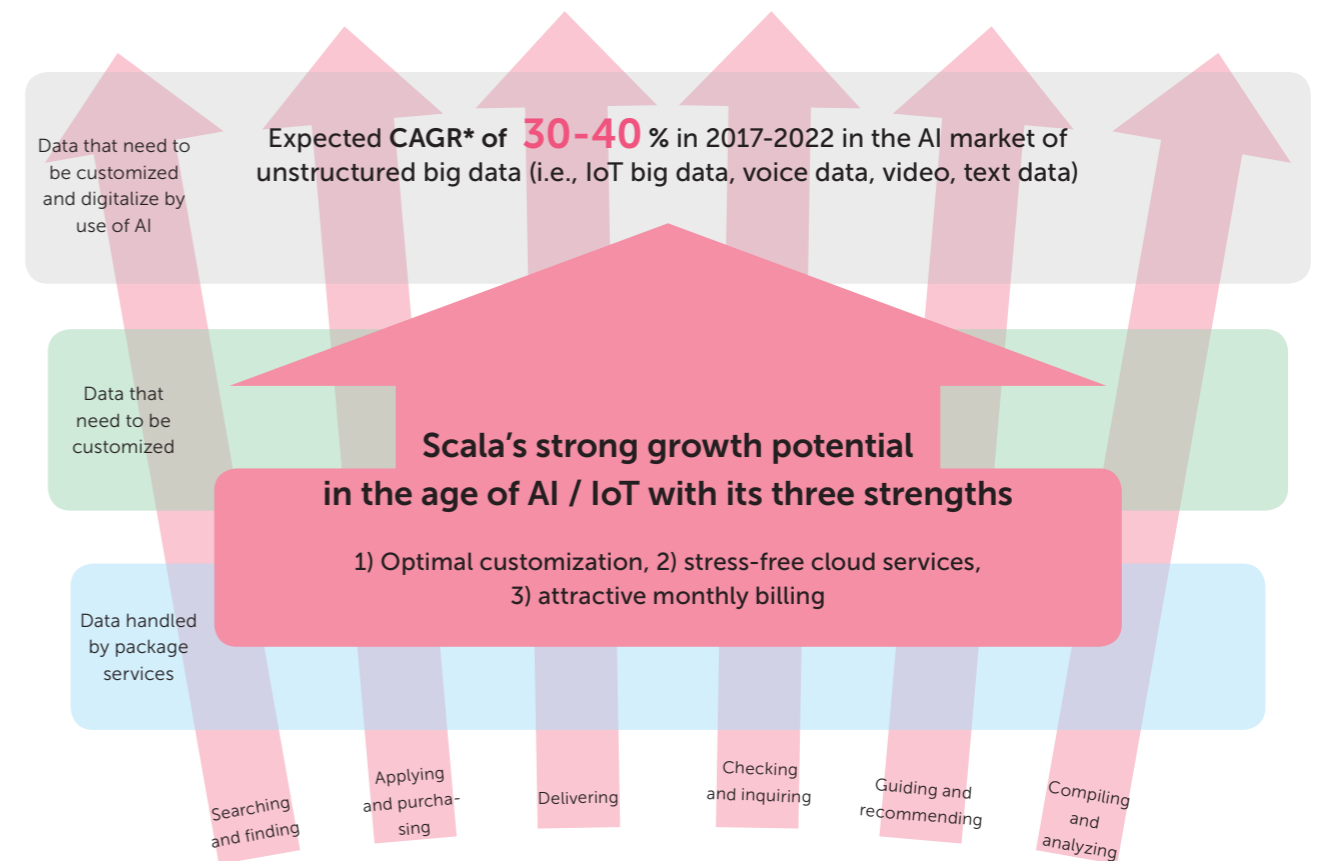
The Scala Group is already building an industry-leading share in the site search "i-search," FAQ system "i-ask," and the automatic answering system "IVR." With the goal of encouraging the use of these services, such as corporate marketing and communication tools with users, we will continue to improve and create services that meet the needs of companies with a focus on CRM and CMS.

A leap in the AI / IoT era

In the AI / IoT era, as the data subject to AI advances became more diverse and information that has not been converted into data until now is fused with IT technology, there is a demand for IT companies to provide more customized services. We can expect a big leap forward in this business that promotes a

strategy centered on customization. In addition, if security is enhanced, the need for cloud-based stress-free services will increase. We aim for significant growth through synergies with the value creation management support business, which will become one of our new businesses.

▼ Expanding business opportunities in the AI / IoT era and the significance of Scala Group positioning



* Surveyed by an independent IT consulting and research firm, ITR Corporation (published on 12/11/2018, estimating CAGR of 35.6% in 2017-2022. Source: <https://www.itr.co.jp/company/press/181211PR.html> According to the Nikkei Newspaper article "IDC Japan announced projection of spending in the global AI system market," the spending in AI systems will more than double to \$79.2billion in 2022 vs. 2019 with a projected CAGR of 38.0% in 2018-2022.

SFA Business

Business is being developed by a consolidated subsidiary, Softbrain Co., Ltd. Based on the development concept of "Most user-friendly CRM / SFA"¹⁴, we are always developing services that support the most advanced devices. As a result, in the user survey for CRM / SFA, we won the first place in usability, business improvement, introduction effect, service satisfaction and system satisfaction. Softbrain has been rated as the No.1¹⁵ CRM/SFA in overall satisfaction.

It is supported by a wide range of customers, from large companies and from small and medium-sized companies, regardless of scale, industry, or business type, and boasts a track record of serving over 5,000 customer companies. Based on the solid know-how gained from these cases, we provide reliable solutions to solve business issues.

Field marketing business

This business is primarily operated by Softbrain Field Co., Ltd., which provides sales support and market research by registered staff nationwide. In order to enable customers to respond to the constantly changing business environment, we conduct sales promotions and act as sales agents in addition to supporting sales and recruitment based on data gathered from all over the country, using methods such as mystery shoppers and storefront surveys.

Unique business model with flexible employment

This business regards workers as consumers and employs them based on the concept that they can work more comfortably, that is, they can work "wherever they want", "when they want", "whatever they like", "as much as they want". Through a cast network of 256,567 casts (as of 2018) nationwide that sympathize with this philosophy, we have created a unique business model called "field cloud-sourcing". Specifically, housewives who have been viewed as "consumers", are viewed as attractive resources with a strict consumer perspective from a service provider's view. We aim to pay attention to the "housewives" and create synergies with this, due to labor shortages.

Strategic direction of field marketing business

We aim to connect companies and consumers and contribute to the revitalization of the community. Softbrain Field Co., Ltd. creates a consumer-centered network in the local community by creating employment in its own living area for housewives who are the main registrants of the cast network. This will not only revitalize local business, but also aim to further revitalize the community by linking companies that provide products and services to consumers with cast networks.

14 CRM / SFA: CRM stands for "customer relationship management" and means IT tools for "customer relationship management". On the other hand, SFA is an abbreviation for "Sales Force Automation," meaning "automation of sales activities." CRM is a management concept called "customer relationship management" and a system for realizing it. SFA refers to systems and tools that make sales activities more efficient.

15 Web Survey by ESP Research Institute, Inc. May 2018, Men and women in their 20s to 60s / Company managers, managing directors, board members and group board members, company employees and group employees (including temporary employees and contract employees) / CRM / SFA users / 300 people

Current status of customer support business

One-stop solution with specialists and Scala Group tools

This business is operated by Leoconnect Inc. a subsidiary of the Scala Group which conducts contract work for subsidiaries of the Hikari Tsushin Group. It mainly undertakes inbound call center operations for the products of each company within the Hikari Tsushin Group and resolves issues in a one-stop related to call center operations, from inquiry reception to follow-up after response.

By combining Leoconnect know-how with the Scala Group tools, not only will the service provision costs of both companies be halved, thus improving profit margins, but also opportunities will arise as the SaaS/ASP services of the Scala Group are ordered and introduced by Hikari Tsushin Group subsidiaries.

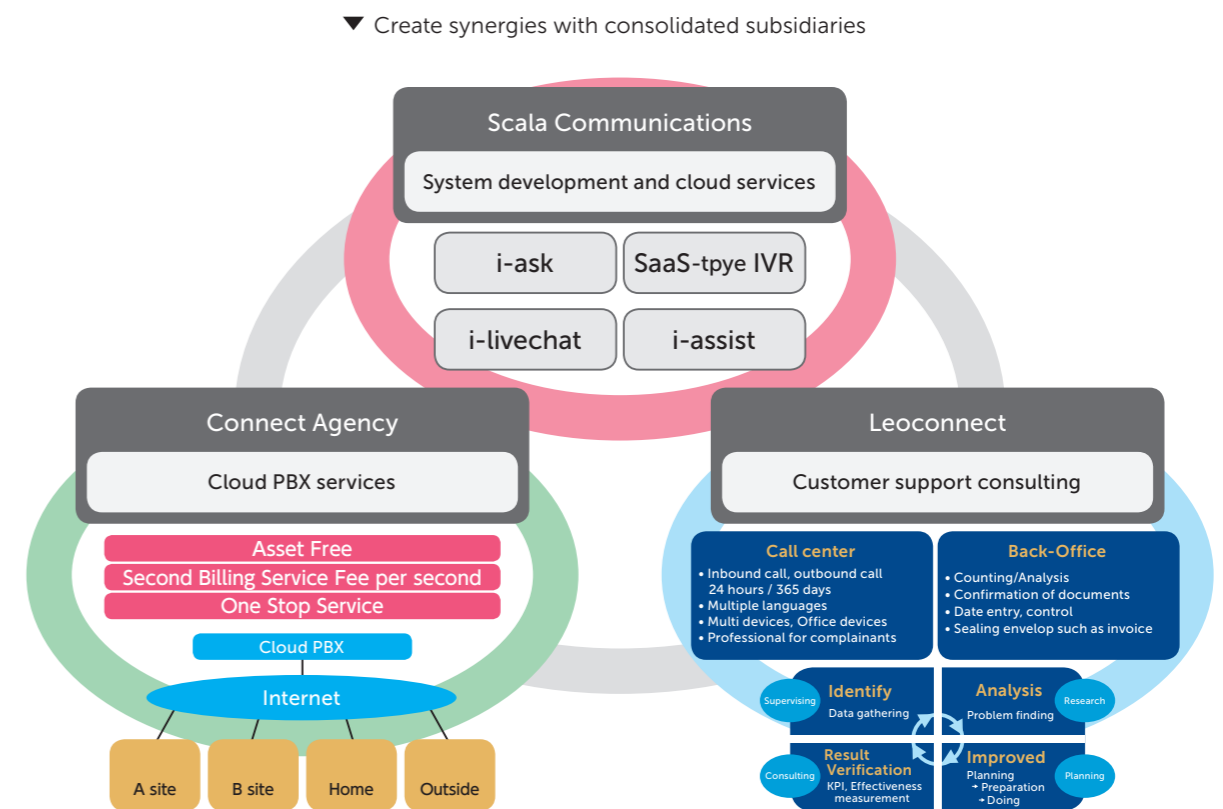
Strategic direction of customer support business

We will promote further cooperation between tool knowledge and development. For this business, not only will this accelerate cooperation between

customer support consulting and call center-related IT services and improve the quality of customer service, but it will also promote product purchases and prevent service cancellations. We will accelerate the development of a proposal-type inbound center.

Enhance inbound response support

This business will strengthen the multilingual call center function to support inbound measures of each company and local government as a response to the increasing number of foreign tourists visiting Japan in preparation for the 2019 Rugby World Cup and the 2020 Tokyo Olympics. We aim to provide high-quality concierge services. As it is not likely that local governments and companies have implemented enough inbound measures, many business opportunities may be missed. For this reason, Scala's subsidiary, Scala Communications and Leoconnect will cooperate together to translate local government and company FAQ pages, and if there is no solution, connect to a multilingual operator to provide video chat support and concierge service at all times.



Current status of other businesses

System development business

This business is primarily operated by Softbrain Offshore Corporation. With years of offshore development know-how, we place emphasis on "removal of dependence on specific individuals" and "thorough project management" to avoid failures that tend to happen due to offshore development. We also offer best practices by combing measure flexibly such as utilizing domestic partners. The recent situation of domestic software development is becoming increasing severe and outlined in the following:

- 1) Development delays due to chronic engineer shortage
- 2) Lack of response to increasing small-scale development projects
- 3) Increased operating costs

Facing these challenges, Scala Group will implement the following measures:

- 1) Utilization of abundant engineers overseas (offshore development)
- 2) Utilization of domestic partners (near shore development)
- 3) Discover excellent local talents from human resources Maintenance work (operations) by overseas outsourcing or supported by overseas personnel

Publishing Business

In this business, the "Diamond Sales" editorial department was established at Diamond, Inc. for the launch of "Diamond Sales." In 2005, Softbrain Co., Ltd. participated as capital and merged with Diamond, Inc. Currently, Diamond Sales focus on publishing a wide range of business books such as management, marketing, sales with our corporate customers as well as conducting consulting on IR, branding and marketing enhancement.

EC Business

This business is operated by Plube, Inc., which operates an e-commerce site "Yuyutei" that buys and sells competitive trading cards. Its strength is that operations such as logistics, systems, sales, purchases, and marketing are all conducted by the company itself.

Plube is continuously improving and refurbishing the system and services it provides, such as the development of smartphone apps to provide TCG users with the best trading experience and is actively handling new game titles as the No. 1 TCG (trading card game) net shop. In addition, it will continue to provide timely and in-depth game strategy information, thereby creating a place where TCG users come most often and aiming for corporate growth. In this business, the Scala Group will accumulate experience and know-how such as product inventory management, nationwide shipping, product pricing and will expand to operate EC sites for individuals in the future.

Major drivers of corporate value and financial strategy

The following shows the image of changes in major drivers of corporate value. As the ratio of invested capital to sales declines moderately, ROIC is aimed to increase from around 13% to 30%. WACC is estimated to be 5% from a comprehensive perspective, based on the method explained in the explanation section of GCC management, the yields of past government bonds, the total yield of TOPIX and the movement of the stock price of the company.

▼ Image of major drivers of corporate value

	June 2020	June 2025	June 2030
Revenue	¥20 billion	¥100 billion	¥500 billion
NOPAT Margin	5%	6%	6%
ROIC	13%	20%	30%
Invested Capital*turnover ratio	41%	30%	20%
WACC	5%	5%	5%

***Invested capital is defined below. Cash and deposits-1.5 months of revenues = surplus funds
Total assets-surplus funds-surplus funds other than interest-bearing debt-valuation under IFIS.
For Softbrain Co., only equity was converted into invested capital.**

Financial strategy

The Scala Group aims to improve corporate value over the medium to long term, and views revenue and earnings per share of non-GAAP indicators as objective indicators. To achieve sustainable growth, we will promote existing businesses, and to further accelerate growth, we aim to increase corporate value by realizing business expansion and business development in other fields through M&A.

Financing

The Scala Group's funding demand is mainly for continuous implementation of shareholder return policies, growth investment and M&A aiming at business expansion and corporate value enhancement. These funds are basically financed with cash on hand, and fundraising is carried out by borrowing from financial institutions and issuing bonds as necessary.

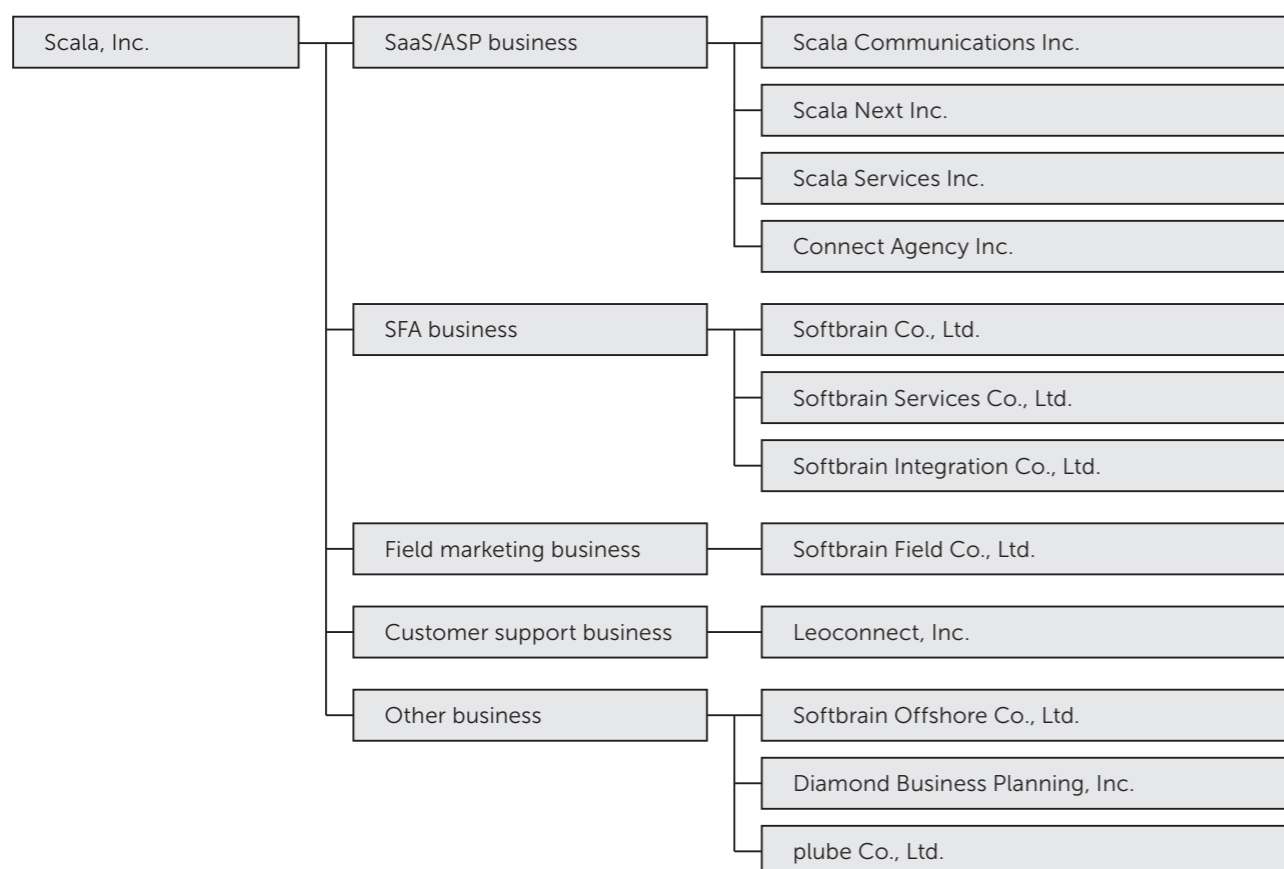
Dividend Policy

The Scala Group considers appropriate return of profits to shareholders an important management issue and provides stable and continuous dividends while strengthening its financial structure and securing internal reserves necessary for business development. The Scala Group pays dividends from retained earning twice a year, an interim dividend and a year-end dividend. In the fiscal year ending June 2019, we plan to increase dividends by ¥ 4 per share to ¥ 24 per share which sees dividend increase for the 10th consecutive year. Since we are developing a stable cash flow business, we have a high growth rate and a 50% payout ratio. In the long term, the medium-term management plan aims to achieve an EPS growth rate of about 30-40% annually and an increase in dividend per share of 20-30% annually.

Company Overview (as of 14 August 2019)

Corporate name	Scala, Inc.
Established	December 11, 1991
Representative	Norikatsu Nagino
Location	Ebisu Prime Square Tower, 1-1-39, Hiroo, Shibuya-ku, Tokyo, 150-0012 Japan
Capital	1,604 million yen
Fiscal year end	June
Listing	Tokyo Stock Exchange First Section [4845]
Employees	487 (as of December 31, 2018; consolidated base) Full-time and contracted employees only

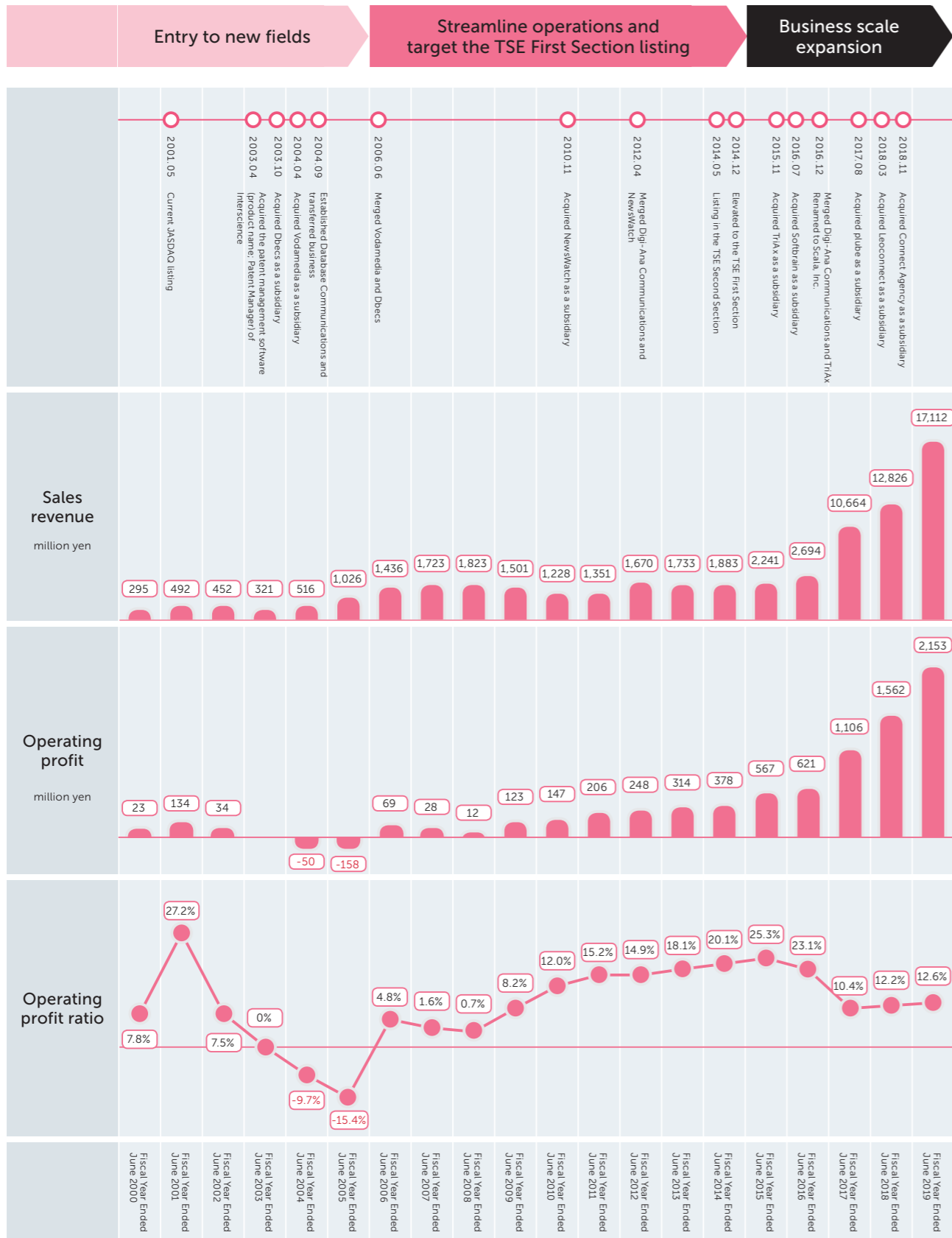
Company organization chart (as of 30 June 2019)



History

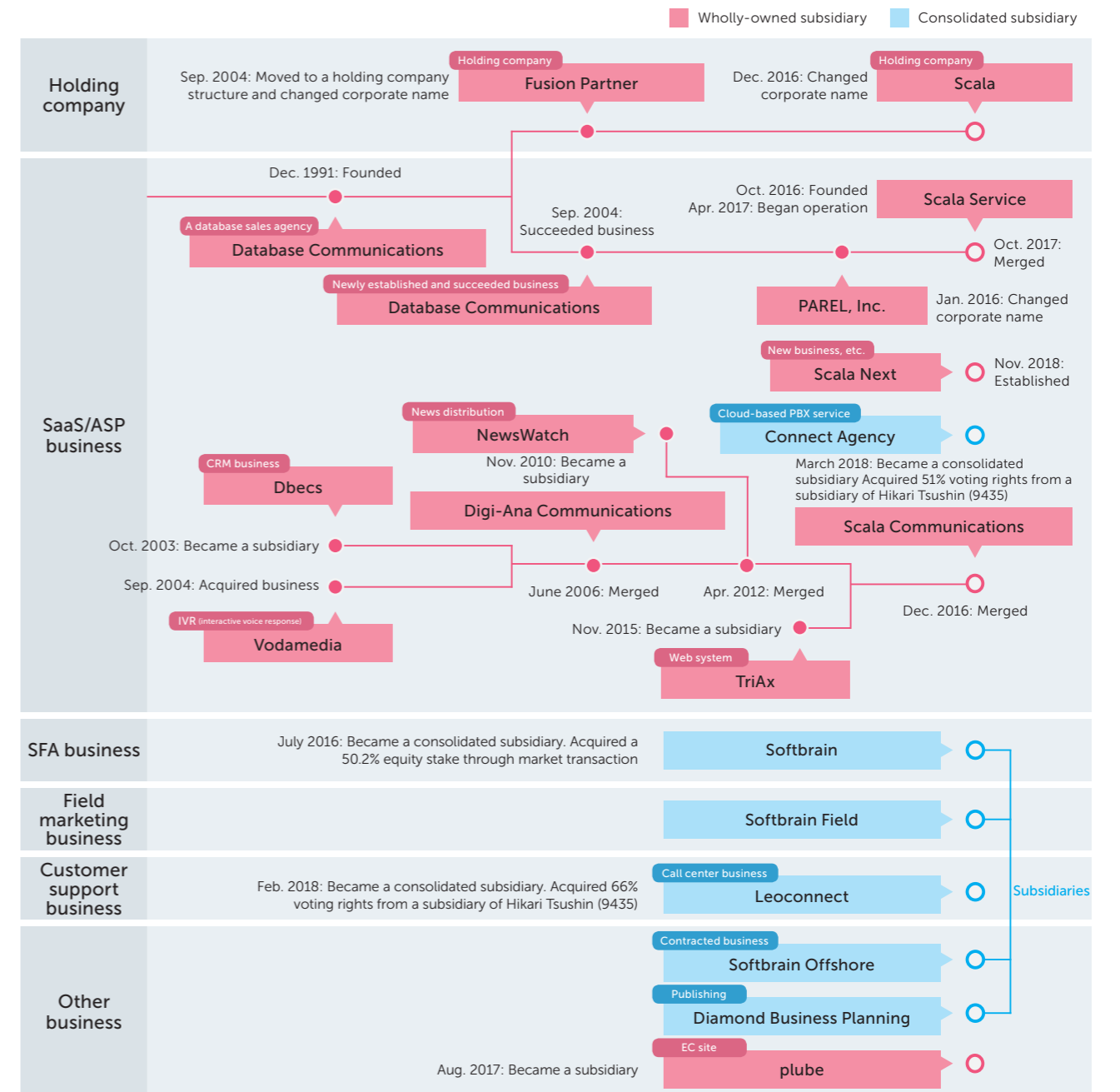
1991	Dec.	Kenzo Tamura and Hideki Shimazu founded Database Communications (now, Scala, Inc.)
1999	Jan.	Formed sales agency contracts for the Japanese market with Us-based Computer Corporation of America and started Model 204 support
2001	May	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
2003	Apr.	Acquired the patent management software (product name; PatentManager) of Interscience Co., Ltd. with the aim of entering the patent management system field
	Oct.	Acquired Dbecs Co., Ltd. as a subsidiary to enter the CRM field
2004	Apr.	Acquired Vodamedia Inc. as a subsidiary with the aim of entering the IVR (interactive voice response) field)
	Sep.	Renamed as Fusion Partners, Co. in the transition to a holding company structure and established Database Communications (now, Scala Services Inc.) as a new company and transferred its business.
2006	June	Merged subsidiaries Vodamedia and Dbecs and renamed it to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
2010	Nov.	Acquired NewsWatch Inc. as a subsidiary
2012	Apr.	Merged subsidiaries Digi-Ana Communications and NewsWatch (now, Scala Communications Inc.)
2013	Aug.	Norikatsu Nagino was appointed as Representative Director and President
2014	May	Listing transferred to the TSE Second Section
	Dec.	Elevated to the TSE First Section
2015	Nov.	Acquired TriAx Corp. as a subsidiary
2016	Jan.	Renamed subsidiary Database Communications as PAPEL, Inc. (now, Scala Services Inc.)
	July	Acquired Softbrain Co., Ltd. as a subsidiary
	Dec.	Changed the corporate name to Scala, Inc.
	Dec.	Merged subsidiaries Digi-Ana Communications and TriAx and renamed it to Scala Communications Inc.
2017	Apr.	Scala Services began operation
	Aug.	Acquired plube Co., Ltd. as a subsidiary
2018	Mar.	Acquired Leoconnect, Inc. as a subsidiary
	Nov.	Acquired Connect Agency, Inc. as a subsidiary
	Nov.	Established Scala Next, Inc.
	Dec.	Established the Mandalay Branch (Myanmar) of Scala Next, Inc.

▼ Long-term business performance since listing



▼ Scala Group business description and history of business development since its foundation

Business segment	Description of business
SaaS/ASP	Provision of SaaS/ASP-type services that use automated voice technologies on the browser, telephone, fax, etc. over the Internet or telephone lines
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Other	Provision of the EC website for buying and selling battle-type trading cards; contracted development of software; publishing of business-related books, etc.



Disclaimer

This material includes forward-looking matters such as forecasts, prospects, targets, and plans related to Scala Inc. (hereinafter referred to as "Scala"). These are based on the predictions made at the time based on information obtained by Scala at the time of preparation of this document. Certain preconditions and assumptions are adopted in this document, including subjective projections and those which are not judgments of Scala's executives.

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For this reason, the Scala Group has no obligation or policy to update such information to the latest information from time to time regarding the forecasts, prospects, targets, plans, etc. posted in this document.

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