

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending June 30, 2023 (Three Months Ended September 30, 2022) [IFRS]

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 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

(All amounts are rounded down to the nearest million yen.)

1. Management Performance Measures under IFRS and Non-GAAP

Consolidated Results of Operations (July 1, 2022 – September 30, 2022)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
(IFRS)										
Three months ended Sep. 30, 2022	3,046	44.8	97	555.6	82	622.6	51	–	51	–
Three months ended Sep. 30, 2021	2,104	–	14	–	11	–	(4)	–	(8)	–
(Non-GAAP)										
Three months ended Sep. 30, 2022	3,046	44.8	97	205.1	83	189.8	51	184.0	51	265.4
Three months ended Sep. 30, 2021	2,104	–	32	–	28	–	18	–	14	–

	IFRS		Non-GAAP	
	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
	Yen	Yen	Yen	Yen
Three months ended Sep. 30, 2022	2.96	2.95	2.99	2.98
Three months ended Sep. 30, 2021	(0.47)	(0.47)	0.81	0.80

Notes: 1. In the fourth quarter of the fiscal year ended June 30, 2022, Scala's consolidated subsidiary Scala Works, Inc. was classified as a discontinued operation following the resolution on its dissolution and liquidation. Accordingly, revenue, operating profit, and profit before tax for the three months ended September 30, 2021 were reclassified by deducting the amounts of those from the discontinued operation from the amounts of those from continuing operations. Because of this, these year-on-year changes are not presented.

For details of the discontinued operations, please refer to "2. Condensed Quarterly Consolidated Financial Statements and Notes, (5) Notes to Condensed Quarterly Consolidated Financial Statements (Discontinued Operations)" on page 17 of Attachments.

2. In non-GAAP measures, for adjustment, profit or loss on securities related to investment business was deducted from the line items below operating profit, and profit from discontinued operations was deducted from the line items below profit.
3. In non-GAAP measures, in addition to the above Note 2, expenses incurred on the relocation of the head office of Scala's subsidiary of 26 million yen were deducted from the line items below operating profit for the three months ended September 30, 2021.
4. For details of the non-GAAP measures, please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance (1) Explanation of Results of Operations" on page 2 of Attachments.

2. Consolidated Financial Position under IFRS

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity per share attributable to owners of parent
	Million yen	Million yen	Million yen	%	Yen
As of Sep. 30, 2022	20,689	8,631	8,315	40.2	480.44
As of Jun. 30, 2022	20,816	9,006	8,687	41.7	497.29

3. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2022	–	18.00	–	18.00	36.00
Fiscal year ending Jun. 30, 2023	–				
Fiscal year ending Jun. 30, 2023 (forecasts)		18.50	–	18.50	37.00

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

4. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2023 under IFRS (July 1, 2022 – June 30, 2023)

(Percentages represent year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	6,500	52.6	400	–	385	–	270	–	255	–	15.31
Full year	13,000	29.8	1,000	–	970	–	680	–	650	–	38.56

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

* Notes

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

Newly added: – Excluded: –

(2) Changes in accounting policies and accounting estimates

1) Changes in accounting policies required by IFRS: None

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

3) Changes in accounting estimates: None

(3) Number of shares outstanding (common shares)

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

As of Sep. 30, 2022: 17,708,259 shares As of Jun. 30, 2022: 17,698,259 shares

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

As of Sep. 30, 2022: 400,008 shares As of Jun. 30, 2022: 228,608 shares

3) Average number of outstanding shares during the period

Three months ended Sep. 30, 2022: 17,340,568 shares Three months ended Sep. 30, 2021: 17,600,159 shares

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

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

Cautionary statement with respect to forecasts

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

How to view supplementary materials for quarterly financial results

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

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	6
(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements	6
2. Condensed Quarterly Consolidated Financial Statements and Notes	7
(1) Condensed Quarterly Consolidated Statement of Financial Position	7
(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income	8
Condensed Quarterly Consolidated Statement of Income	8
Condensed Quarterly Consolidated Statement of Comprehensive Income	9
(3) Condensed Quarterly Consolidated Statement of Changes in Equity	10
(4) Condensed Quarterly Consolidated Statement of Cash Flows	12
(5) Notes to Condensed Quarterly Consolidated Financial Statements	14
Going Concern Assumption	14
Notes to Condensed Quarterly Consolidated Financial Statements	14
Segment Information	15
Discontinued Operations	17
Material Subsequent Events	17

1. Qualitative Information on Quarterly Consolidated Financial Performance

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

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

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work’s business as a discontinued operation.

Accordingly, revenue, operating profit, and profit before tax for the three months ended September 30, 2021 were reclassified by deducting the amounts of those from the discontinued operation from the amounts of those from continuing operations.

(1) Explanation of Results of Operations

During the first quarter of the fiscal year ending June 30, 2023 (the “period under review”), the Japanese economy still remained uncertain and opaque due to the increasingly infectious and mutating COVID-19, although economic activities have been revitalized in response to increased vaccination rates. In addition to this, the economic outlook in Japan also remained uncertain due to the ongoing depreciation of the yen in the foreign exchange market and soaring crude oil prices caused by the protracted situation in Ukraine. On the other hand, in order to improve the uncertain situation, strategic investment in systems and recruitment of human resources toward digital transformation (DX) are being promoted to raise the level of socioeconomic activities, including the establishment of new lifestyles and continuous reform of work styles. And this has caused the need for solutions through consulting and system development to become more active.

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

As a result, the Group reported revenue of 3,046 million yen (up 44.8% year on year) for the period under review. This increase was due to an increase in revenue from the IT/AI/IoT/DX Business and the Insurance Business, as well as continued growth in the EC Business, though partially offset by a decline in revenue from the Customer Support Business and the Incubation & Investment Business.

On the profitability front, the Group reported operating profit of 97 million yen (up 555.6%). This result can be explained mainly by an increase in profit from the Incubation & Investment Business due to improvement in profitability and reduction of costs amid the continued aggressive investment toward the development of various new businesses such as intensive business activities to support corporate value creation leading to major DX projects, creation of new services related to regional revitalization as well as organizational enhancement to promote international businesses.

Profit before tax amounted to 82 million yen (up 622.6%) despite an increase in interest expenses due to the newly added borrowings. As a result of recording income tax expense of 31 million yen, profit amounted to 51 million yen (compared with loss of 4 million yen a year earlier) and profit attributable to owners of parent amounted to 51 million yen (compared with loss attributable to owners of parent of 8 million yen a year earlier).

(Reporting on a non-GAAP basis)

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

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

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

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

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

For the first quarter of the previous fiscal year, an adjustment other than the above was made to expenses of 26 million yen incurred on the relocation of subsidiaries.

Business segment performance is as follows.

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

(i) IT/AI/IoT/DX Business

In this business segment, Scala Communications, Inc. and EGG CO., LTD. as main players continued working for major companies, local governments, the central government, and government agencies by providing planning and system development of new services for promoting DX as well as proposal, introduction support and provision of the existing SaaS/ASP services.

As one of the major projects, we have started working jointly with Otsuka Pharmaceutical Co., Ltd. and Sompo Japan Insurance Inc. to build a smart healthcare platform as a co-creation project. As the first step for this project, we conducted a verification of healthcare services that support health management for workers in companies and other organizations with the aim to revitalize the business of organizations. This service is a health support service that provides health maintenance and promotion programs and helps them continue their health maintenance and promotion activities, which companies and organizations can use to support the health of their employees. By supporting the health of employees, companies can improve their operational efficiency and promote productivity improvement of the entire company.

In addition, we have been commissioned by Yonago City in Tottori Prefecture to undertake a project to promote the use of My Number Cards. The project includes the creation of a landing page that serves as a lead-in to the online application for My Number Card, planning and design of public relations utilizing TV commercials, YouTube and SNS. The project also includes offline efforts to promote the application such as opening application booths at commercial facilities and planning and operation of a My Number Card application vehicle using a camping car. These efforts have paid off with a rapid increase in the penetration rate. At the same time, we are promoting service planning and proposals for online use and utilization of My Number Card.

Other existing services are also being introduced, including the FAQ management system “i-ask” for Asahi Group Foods, Ltd., SCSK Corporation, and others, and the microservice platform “GEAR-S” for Kirin Holdings Company, Limited.

In addition, we developed a “facility reservation system” linked to digital IDs for local governments nationwide in cooperation with xID Co., Ltd., and have made ready for providing a SaaS-type service (beta version) that enables online membership registration, facility reservations, and payment.

Connect Agency, Inc. continued to propose softphone, which enable users to receive and make calls using software running on PCs, as an alternative to conventional telephones, targeting existing clients and companies that mainly engage in outbound calls. As softphone makes maintenance work easier and reduces the customer’s cost burden, we have succeeded in winning replacement contracts for 19 existing customers and also winning new contracts with 4 new customers.

In the second quarter, we will work to significantly reduce costs by removing hardphone equipment that is no longer needed after switching to softphones. We will also utilize the resources of the Okinawa Call Center of Scala Service, Inc. to strengthen our sales resources and recover our business performance.

As a result of the above, the segment revenue was 1,450 million yen (up 65.3% year on year) due in part to the contribution of EGG CO., LTD., which became a consolidated subsidiary of the Company in the previous fiscal year. On the profitability front, segment profit was 249 million yen (up 23.5%) before allocation of corporate expenses, and 86 million yen (up 61.6%) after allocation of corporate expenses.

(ii) Customer Support Business

This business segment has seen an improvement in the ongoing downward trend of the number of call center contracts due to the spread of the COVID-19 infection, and we have steadily acquired new contracts. In the first quarter, operations of three new projects started at two companies. The Company currently has new inquiries from five companies, and is proceeding with proposals, aiming to start operations in the second quarter. We will continuously strive to acquire new projects and, at the same time, raise profit margins by lowering costs through transfer of projects to the call center in Okinawa that we operate, and streamlining BPO operations using RPA.

As a result of the above, the business recorded segment revenue of 303 million yen (down 15.4% year on year), segment loss before allocation of corporate expenses of 11 million yen (compared with segment profit of 4 million yen a year earlier), and segment loss after allocation of corporate expenses of 14 million yen (compared with segment profit of 3 million yen a year earlier).

(iii) HR & Education Business

This business mainly consists of the following services: (1) recruitment support services for new graduates and mid-career hires, specialized for athletic students and female students, as well as for the planning and operation of related events such as joint company information sessions and career seminars; (2) childcare and educational services, which engage in opening and operations of facilities such as Minna no Hoikuen (which literally means a nursery school for everyone), international preschool Universal Kids, UK Academy for school children to foster international awareness, and Largo KIDS after-school day service focusing on athletic activities; and (3) sports education services, which engage in planning and operations of sports school for children including baseball, soccer, basketball and *Ballschule* (which literally means “ball school”) and sports events.

In the recruitment support service, we are receiving more inquiries for the overall service than in previous average years due to the resumption of the economy after the pandemic, increased willingness to recruit new employees for the spring of 2023 due to the labor shortage, and companies’ efforts to promote the advancement of female personnel and strengthen their training.

In the childcare and educational services, preschools Universal Kids Shinagawa and Universal Kids Bangkok were pre-opened in September.

In the sports education service, the Company continued considering businesses with the government sports administration in cooperation with the national and local governments. In addition, the 2022-23 season of the B3 League, to which the Saitama Broncos professional basketball team belongs, started in October.

As a result, the business recorded segment revenue of 431 million yen (up 9.2% year on year). On the profitability front, segment profit before allocation of corporate expenses was 126 million yen (up 10.8%), and segment profit after allocation of corporate expenses was 111 million yen (up 10.2%).

(iv) EC Business

The EC business operates a reuse e-commerce site for buying and selling trading cards games (TCG), which also contains game walkthrough pages. In the period under review, efforts for digital marketing including SEO continued to work successfully, and both revenue and profit remained strong at a level much higher than the previous fiscal year. In particular, backed by the current exchange rate environment, purchasing activities by overseas users have been increasing month after month, contributing to higher sales. In addition, we are developing a password-less login solution equipped with robust security features. Introducing this solution improves user interface and user experience (UI/UX) by significantly decreasing the needs for reissuance of a password due to, for example, a case where the user forgets the password. We will continue to actively consider introducing cutting-edge technologies to design and provide comfortable UI/UX.

As a result of the above, the EC business recorded revenue of 485 million yen (up 22.3% year on year), segment profit before allocation of corporate expenses of 81 million yen (up 15.9%), and segment profit after allocation of corporate expenses of 65 million yen (up 9.9%).

(v) Insurance Business

This business operates the pet insurance “Insurance for Dogs and Cats.”

Pet-related industries including pet insurance have been expected to grow rapidly in response to an increase in the stay-at-home demand and continued remote working due to the influence of COVID-19 infection. To organically increase the acquisition of insurance policies with insurance products distinctive with caring design, we are also working to strengthen SEO measures. Meanwhile, in response to the soaring loss ratio and acquisition cost per contract, the Company is working to reduce costs by reviewing business partners and streamlining the operations. Through these measures, the Company is working to further strengthen its profit structure to create a system that enables to generate stable profits.

As a result of the above, the business recorded revenue of 317 million yen, segment loss before allocation of corporate expenses of 33 million yen, and segment loss after allocation of corporate expenses of 42 million yen.

(vi) Incubation & Investment Business

The segment covers business investments by the Company, development and promotion of services under a new form of public-private co-creation collaboration between local governments and private companies, which is promoted by SOCIALX, INC., and businesses by J-Phoenix Research Inc., which engaged in activities including investment discovery, investments execution and engagement that will lead to creation of corporate value. Furthermore, Scala Partners, Inc., implements new business development, and promotes the work-style reform of companies and regional revitalization through workation. Investments together with the related activities, such as those for value increase of the investee companies, are also implemented under an engagement fund named SCSV-1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital LLC.

SOCIALX, INC. supports the creation of new businesses for addressing social problems in public-private co-creation through a variety of Gyaku Propo services. Specifically, as experts of co-creation collaboration between local governments and private companies, two representatives of SOCIALX serve as mentors for approximately 800 people from 110 major companies (as of October 2022) participating in ARCH (the world’s first incubation center established and operated by Mori Building Co., Ltd. as an organization with a distinctive mission to restructure existing businesses and create new businesses for major companies.) At ARCH, they promote co-creation by leveraging knowledge and insights about public-private co-creation and the network with local governments. In addition, Gyaku Propo Lab@ARCH was established within ARCH as a place for dialogue, idea generation, networking events, and communications between local government officials and large companies that reside in ARCH. Furthermore, entrusted as the secretariat of Project for Business Adoption/Startup in Coexistence with Local Communities in 2022, which was publicly offered by the Ministry of Economy, Trade and Industry, SOCIALX is supporting 19 projects for addressing social problems together with a team of 10 experienced consultants with diverse backgrounds who agree with the philosophy of SOCIALX.

As a service that has derived from Gyaku Propo service, SOCIALX have newly released the following three services: “Gyaku Propo Concierge,” which provides consultation services for local governments having issues on public-private co-creation/civil coordination; “Gyaku Propo Learning,” which provides training and education programs for companies to be able to know the ropes and gain knowledge for developing new businesses to address social problems in public-private co-creation; and “Gyaku Propo Tour,” which combines regional social problems or hidden charms with companies’ strengths on the spot through the open innovation program that connects companies with local governments for creating new business ideas, and quickly leads such ideas to demonstration experiments. Thanks to an increase in the number of local governments and companies using these services, we are successfully monetizing these services.

Scala Partners, Inc. has worked on, through the operation of Komforta Workation, a workation facility introduction website, activities such as proposing “a new working style that is not constrained by where to work” suitable for the post COVID-19 era, establishing a workshop and verifying the effect of workation in collaboration with college institutions, and developing content for training and training camp programs targeting companies by leveraging the concept of workation.

Furthermore, the Group has signed a comprehensive partnership agreement with Mitsui Sumitomo Insurance Company, Limited to develop insurance products in response to new work styles and promote work style reforms

of companies. Under this agreement, we started considering how to support the promotion of human capital management and to reduce risks arising from new workstyle reforms. As such, we have strengthened our service offerings by actively committing to co-creation with other businesses operators and local governments.

SCSV-1 Investment Limited Partnership, a value co-creation engagement fund, has endeavored to increase the value for the invested companies by, for example, providing IR support and promoting digital transformation including the development of a medium-term business plan. However, the effect on value increase is only temporary under instability in the overall stock market due to worsening world conditions including the COVID-19 pandemic and Ukraine situation.

Moreover, we have focused on business expansion through M&A as one of the growth strategies and continued actively engaging in deal sourcing and due diligence. In addition, by leveraging the accumulated M&A experiences and the know-how on digital transformation in the Group, we have started the “co-creation-oriented M&A advisory business” under the Group’s vision on co-creation, where we serve as an advisor, not a mediator, for M&A. What is more, for companies adopting M&A as a growth strategy but having problems with conducting M&A due to lack of human resources or know-how, we have organized the “Specially Appointed Task Force for M&A,” an M&A promotion service focusing on practical support, by leveraging and developing our proven track records related to M&A.

As a result, the segment revenue was 57 million yen (down 23.6% year on year) with segment loss before allocation of corporate expenses of 27 million yen (compared with segment loss of 101 million yen a year earlier) and segment loss after allocation of corporate expenses of 108 million yen (compared with segment loss of 200 million yen a year earlier), due primarily to increased upfront investment costs, such as development costs and personnel expenses for future growth.

In terms of the non-GAAP measures adjusted for profit or loss on securities related to investment business, segment loss before allocation of corporate expenses was 26 million yen (compared with segment loss of 90 million yen a year earlier) and segment loss after allocation of corporate expenses was 108 million yen (compared with segment loss of 189 million yen a year earlier).

(2) Explanation of Financial Position

Assets

Total assets amounted to 20,689 million yen at the end of the period under review, a decrease of 127 million yen over the end of the previous fiscal year. This was mainly attributable to a decrease of 262 million yen in cash and cash equivalents primarily due to year-end dividends, which was partially offset by increases of 125 million yen in inventories and 106 million yen in reinsurance assets.

Liabilities

Liabilities totaled 12,057 million yen, an increase of 247 million yen over the end of the previous fiscal year. This was mainly attributable to an increase of 426 million yen of bonds and borrowings, which consists of an increase of 306 million yen in bonds and borrowings under current liabilities and an increase of 120 million yen in bonds and borrowings under non-current liabilities, which was partially offset by a decrease of 57 million yen in income taxes payable due to the payment of income taxes.

Equity

Equity totaled 8,631 million yen, a decrease of 374 million yen over the end of the previous fiscal year. This was mainly due to a decrease of 125 million yen due to the purchase of treasury shares and a decrease of 314 million yen in retained earnings due to the payment of dividends, which were partially offset by the recording of profit attributable to owners of parent of 51 million yen.

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

The Group maintains its consolidated forecast for the fiscal year ending June 30, 2023 that was announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2022” on August 15, 2022.

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

	(Thousands of yen)	
	FY6/22 (As of Jun. 30, 2022)	First quarter of FY6/23 (As of Sep. 30, 2022)
Assets		
Current assets		
Cash and cash equivalents	9,625,387	9,362,672
Trade and other receivables	1,614,342	1,553,765
Inventories	288,297	413,982
Reinsurance assets	363,426	469,876
Other current assets	138,844	156,588
Total current assets	12,030,298	11,956,885
Non-current assets		
Property, plant and equipment	638,519	631,635
Right-of-use assets	2,210,887	2,138,669
Goodwill	2,356,300	2,356,300
Intangible assets	1,219,123	1,187,404
Other financial assets	1,196,173	1,257,892
Securities related to investment business	466,924	466,283
Deferred tax assets	689,618	685,322
Other non-current assets	8,562	8,991
Total non-current assets	8,786,110	8,732,498
Total assets	20,816,408	20,689,384
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	947,982	868,813
Bonds and borrowings	3,306,693	3,613,188
Lease liabilities	536,434	547,176
Income taxes payable	94,504	36,654
Insurance contract liabilities	644,380	647,546
Other current liabilities	406,208	448,005
Total current liabilities	5,936,203	6,161,385
Non-current liabilities		
Bonds and borrowings	3,644,434	3,764,562
Lease liabilities	1,764,532	1,672,038
Deferred tax liabilities	317,718	311,046
Other non-current liabilities	147,268	148,722
Total non-current liabilities	5,873,952	5,896,369
Total liabilities	11,810,156	12,057,754
Equity		
Equity attributable to owners of parent		
Share capital	1,778,718	1,781,263
Capital surplus	965,568	973,783
Retained earnings	6,016,133	5,752,982
Treasury shares	(174,187)	(299,966)
Other components of equity	101,175	107,512
Total equity attributable to owners of parent	8,687,408	8,315,575
Non-controlling interests	318,844	316,054
Total equity	9,006,252	8,631,630
Total liabilities and equity	20,816,408	20,689,384

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

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Continuing operations		
Revenue	2,104,352	3,046,695
Cost of sales	(1,162,999)	(1,789,919)
Gross profit	941,353	1,256,775
Selling, general and administrative expenses	(936,516)	(1,174,602)
Other income	1,449	16,142
Other expenses	(858)	(420)
Operating profit (loss) before gains/losses on securities related to investment business	5,427	97,895
Gains/losses on securities related to investment business	9,407	(641)
Operating profit	14,834	97,253
Finance income	6,823	157
Finance costs	(10,254)	(15,004)
Profit before tax	11,404	82,407
Income tax expense	(13,336)	(31,155)
Profit (loss) from continuing operations	(1,932)	51,251
Discontinued operations		
Profit (loss) from discontinued operations	(2,289)	(147)
Profit (loss)	(4,222)	51,103
Profit (loss) attributable to:		
Owners of parent	(8,222)	51,302
Non-controlling interests	3,999	(199)
Profit (loss)	(4,222)	51,103
Earnings per share		
Basic earnings (loss) per share (Yen)		
Continuing operations	(0.34)	2.97
Discontinued operations	(0.13)	(0.01)
Total	(0.47)	2.96
Diluted earnings (loss) per share (Yen)		
Continuing operations	(0.34)	2.96
Discontinued operations	(0.13)	(0.01)
Total	(0.47)	2.95

Condensed Quarterly Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Profit (loss)	(4,222)	51,103
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(19,669)	6,406
Total other comprehensive income, net of tax	(19,669)	6,406
Comprehensive income	(23,892)	57,510
Comprehensive income attributable to:		
Owners of parent	(27,892)	57,709
Non-controlling interests	3,999	(199)
Comprehensive income	(23,892)	57,510

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)

(Thousands of yen)

	Equity attributable to owners of parent					Total equity attributable to owners of parent
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
Balance as of Jul. 1, 2021	1,750,027	934,989	7,173,991	(9)	303,622	10,162,621
Profit (loss)	–	–	(8,222)	–	–	(8,222)
Total other comprehensive income	–	–	–	–	(19,669)	(19,669)
Comprehensive income	–	–	(8,222)	–	(19,669)	(27,892)
Dividends	–	–	(316,754)	–	–	(316,754)
Exercise of share acquisition rights	9,060	9,060	–	–	(248)	17,871
Share-based remuneration transactions	–	7,573	–	–	–	7,573
Forfeiture of share acquisition rights	–	369	–	–	(369)	–
Total transactions with owners	9,060	17,002	(316,754)	–	(617)	(291,309)
Balance as of Sep. 30, 2021	1,759,087	951,991	6,849,015	(9)	283,334	9,843,420
	Non-controlling interests	Total equity				
Balance as of Jul. 1, 2021	308,355	10,470,977				
Profit (loss)	3,999	(4,222)				
Total other comprehensive income	–	(19,669)				
Comprehensive income	3,999	(23,892)				
Dividends	–	(316,754)				
Exercise of share acquisition rights	–	17,871				
Share-based remuneration transactions	–	7,573				
Forfeiture of share acquisition rights	–	–				
Total transactions with owners	–	(291,309)				
Balance as of Sep. 30, 2021	312,355	10,155,775				

First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)

(Thousands of yen)

	Equity attributable to owners of parent					Total equity attributable to owners of parent
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity	
Balance as of Jul. 1, 2022	1,778,718	965,568	6,016,133	(174,187)	101,175	8,687,408
Profit (loss)	–	–	51,302	–	–	51,302
Total other comprehensive income	–	–	–	–	6,406	6,406
Comprehensive income	–	–	51,302	–	6,406	57,709
Dividends	–	–	(314,453)	–	–	(314,453)
Exercise of share acquisition rights	2,544	2,544	–	–	(69)	5,020
Share-based remuneration transactions	–	5,082	–	–	–	5,082
Purchase of treasury shares	–	–	–	(125,779)	–	(125,779)
Changes in ownership interest in subsidiaries	–	588	–	–	–	588
Total transactions with owners	2,544	8,215	(314,453)	(125,779)	(69)	(429,542)
Balance as of Sep. 30, 2022	1,781,263	973,783	5,752,982	(299,966)	107,512	8,315,575

	Non-controlling interests	Total equity
Balance as of Jul. 1, 2022	318,844	9,006,252
Profit (loss)	(199)	51,103
Total other comprehensive income	–	6,406
Comprehensive income	(199)	57,510
Dividends	–	(314,453)
Exercise of share acquisition rights	–	5,020
Share-based remuneration transactions	–	5,082
Purchase of treasury shares	–	(125,779)
Changes in ownership interest in subsidiaries	(2,590)	(2,002)
Total transactions with owners	(2,590)	(432,132)
Balance as of Sep. 30, 2022	316,054	8,631,630

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Cash flows from operating activities		
Profit before tax	11,404	82,407
Profit (loss) before tax from discontinued operations	(2,275)	(148)
Depreciation and amortization	162,639	198,271
Losses (gains) on securities related to investment business	(9,407)	641
Finance income	(6,826)	(172)
Finance costs	9,669	11,812
Decrease (increase) in trade and other receivables	170,026	(18,270)
Increase (decrease) in trade and other payables	54,392	(37,118)
Decrease (increase) in inventories	(80,980)	(123,647)
Decrease (increase) in reinsurance assets	–	(106,450)
Increase (decrease) in insurance contract liabilities	–	3,166
Other	28,225	56,259
Subtotal	336,867	66,750
Interest and dividends received	1,532	1,458
Interest paid	(7,428)	(9,647)
Income taxes refund (paid)	(43,638)	(91,753)
Net cash provided by (used in) operating activities	287,332	(33,192)
Cash flows from investing activities		
Purchase of property, plant and equipment	(53,564)	(57,259)
Purchase of intangible assets	(15,149)	(6,783)
Purchase of investment securities	(92,130)	–
Payments for loans receivable	(6,000)	–
Payments of leasehold and guarantee deposits	(13,528)	(10,339)
Proceeds from refund of leasehold and guarantee deposits	780	308
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(69,797)	–
Purchase of investments accounted for using equity method	–	(42,807)
Other	(149)	3
Net cash provided by (used in) investing activities	(249,539)	(116,878)

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	225,112	233,332
Proceeds from long-term borrowings	–	600,000
Repayments of long-term borrowings	(282,583)	(388,861)
Redemption of bonds	(20,000)	(20,000)
Repayments of lease liabilities	(86,790)	(136,171)
Proceeds from exercise of share acquisition rights	17,871	5,020
Purchase of treasury shares	–	(125,779)
Dividends paid to owners of parent	(272,935)	(275,055)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(2,002)
Net cash provided by (used in) financing activities	(419,325)	(109,517)
Effect of exchange rate changes on cash and cash equivalents	(612)	(3,126)
Net increase (decrease) in cash and cash equivalents	(382,145)	(262,715)
Cash and cash equivalents at beginning of period	9,809,559	9,625,387
Cash and cash equivalents at end of period	9,427,413	9,362,672

Note: Cash flows from continuing operations and cash flows from discontinued operations are included in the above table.

Cash flows from discontinued operations are described in Note (Discontinued Operations).

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Scala, Inc. is a corporation located in Japan.

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

Scala's consolidated financial statements for the three months ended September 30, 2022 encompass Scala and the Group's interests in Scala's subsidiaries.

The Group aims to become a "value co-creation company solving social problems with clients through business" through the operations of IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business, mainly focusing on services supporting communication between companies and people.

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

2. Basis of Preparation

(1) Compliance with IFRS

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

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

(2) Basis of measurement

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

(3) Functional currency and presentation currency

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

3. Significant Accounting Policies

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

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

4. Significant Accounting Estimates and Judgments Involving Estimates

The preparation of the condensed quarterly consolidated financial statements requires the management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, revenues and expenses. Actual results, however, could differ from these estimates.

These estimates and underlying assumptions are consistently reviewed. The effect of changes in accounting estimates is recognized in the reporting period in which the changes are made and in any future reporting periods

affected.

The management has made estimates and judgments that have a material impact on the amounts reported in the condensed quarterly consolidated financial statements for the period under review in the same way as it did in the consolidated financial statements for the previous fiscal year.

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and that the Board of Directors regularly reviews to make decisions about allocations of corporate resources and assess their performance.

In the fourth quarter of the fiscal year ended June 30, 2022, the Company resolved to dissolve and liquidate its consolidated subsidiary Scala Works, Inc., and classified Scala Work's business as a discontinued operation and excluded from the segment information for the first three months of previous and current fiscal years.

- The IT/AI/IoT/DX Business promotes digital transformation (DX) through IT, AI, and IoT and proactively facilitates cooperation with different industries and partners who have expertise in relevant technology, with the primary objective of establishing new businesses and services, and redefining existing businesses, and speeding up regrowth to promote DX inside and outside Japan. This business also provides SaaS/ASP services using IT (Web, phone, fax, SMS related technologies)/AI/IoT technologies to meet customer needs flexibly and quickly.
- The Customer Support Business provides customer support consulting that serves as a one-stop source of solutions for a variety of issues associated with call center operations.
- The HR & Education Business offers recruiting support for new graduates and mid-career employees focusing on physical education students and professional athletes, infant education and sports education to support children to foster personality, and operates a professional basketball team.
- The EC Business operates Yuyu-Tei, a reuse EC site for buying and selling trading cards games (TCG) for battle-type games, which also contains game walkthrough pages.
- The Insurance Business operates pet insurance "Insurance for Dogs and Cats" that covers medical expenses incurred on treatment of sick or injured pets, such as visit, stay, or surgery at an animal hospital. Medical expenses for pets are to be covered up to the amount limit or within a certain range.
- The Incubation & Investment Business engages in M&A and alliance with other companies. It also provides support for new business development working with private companies in coordination with governments and municipalities across the nation, and offers regional revitalization services through projects such as those for promoting relocations to rural areas. In addition, it makes business investments on its own or through investment partnerships, while continuing value increase and engagement activities on such investment.

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

First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)

(Thousands of yen)

	Reportable segment							Adjustments (Note 1)	Amounts shown on condensed quarterly consolidated financial statements (Note 2)
	IT/AI/IoT/ DX Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	877,438	359,290	395,180	396,640	–	75,802	2,104,352	–	2,104,352
Inter-segment sales and transfers	25,765	11,989	2,865	–	–	2,740	43,360	(43,360)	–
Total	903,203	371,280	398,046	396,640	–	78,543	2,147,713	(43,360)	2,104,352
Segment profit (loss)	53,216	3,673	101,334	59,712	–	(200,635)	17,302	(2,467)	14,834
Finance income	–	–	–	–	–	–	–	–	6,823
Finance costs	–	–	–	–	–	–	–	–	(10,254)
Profit before tax	–	–	–	–	–	–	–	–	11,404

- Notes: 1. The (2,467) thousand yen adjustment to segment profit is elimination for inter-segment transactions.
2. Segment profit (loss) is adjusted to be consistent with operating profit presented in the condensed quarterly consolidated statement of income.
3. Corporate expenses are allocated to each reportable segment based on a rational basis.
4. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)

(Thousands of yen)

	Reportable segment							Adjustments	Amounts shown on condensed quarterly consolidated financial statements (Note 1)
	IT/AI/IoT/D X Business	Customer Support Business	HR & Education Business	EC Business	Insurance Business	Incubation & Investment Business	Subtotal		
Revenue									
Sales to external customers	1,450,498	303,792	431,667	485,256	317,533	57,945	3,046,695	–	3,046,695
Inter-segment sales and transfers	3,825	22,659	4,363	–	–	6,266	37,115	(37,115)	–
Total	1,454,324	326,452	436,030	485,256	317,533	64,212	3,083,810	(37,115)	3,046,695
Segment profit (loss)	86,012	(14,340)	111,646	65,649	(42,764)	(108,949)	97,253	–	97,253
Finance income	–	–	–	–	–	–	–	–	157
Finance costs	–	–	–	–	–	–	–	–	(15,004)
Profit before tax	–	–	–	–	–	–	–	–	82,407

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

Discontinued Operations

As the Company resolved to dissolve and liquidate Scala Works, Inc., the Company's consolidated subsidiary in the fourth quarter of the fiscal year ended June 30, 2022, Scala Works, Inc. has been classified as a discontinued operation and separately presented.

(1) Discontinued operations performance

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Profit or loss from discontinued operations		
Revenue	4,386	14
Expense	(6,661)	(162)
Profit (loss) before tax from discontinued operations	(2,275)	(148)
Income tax expense	(14)	0
Profit (loss) from discontinued operations	(2,289)	(147)

(2) Cash flows from discontinued operations

	(Thousands of yen)	
	First three months of FY6/22 (Jul. 1, 2021 – Sep. 30, 2021)	First three months of FY6/23 (Jul. 1, 2022 – Sep. 30, 2022)
Cash flows from discontinued operations		
Cash flows from operating activities	(7,913)	(2,548)
Cash flows from investing activities	(6,000)	–
Cash flows from financing activities	–	–
Total	(13,913)	(2,548)

Material Subsequent Events

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with International Financial Reporting Standards (IFRS), for the convenience of readers who prefer an English translation.