

## Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

18-Oct.-2022

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<https://www.fisco.co.jp>

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## Summary

### Aims to dramatic growth with the business to solve social issues as the seed for growth, based on DX

Scala, Inc. <4845> (hereafter, “the Company”) is a holding company that aims to create value and solve social problems through its portfolio focused on the IT/AI/IoT/DX Business, and it is working to expand its business areas and to create synergies through an M&A strategy. The Company operates the six businesses of the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business. It is working to achieve the results target (revenue of ¥500bn in FY6/30) set out in COMMIT5000, its mid-term management plan. The Company moved its listing to the Tokyo Stock Exchange (TSE) Prime Market in line with the TSE’s transition to new market segments in April 2022.

#### 1. Overview of FY6/22 results

In FY6/22 in the ongoing businesses\*, revenue increased 15.0% compared to in the same period in the previous fiscal year (year on year (YoY)) to ¥10,015mn, and operating loss was ¥393mn (compared with operating profit of ¥413mn in the same period of the previous fiscal year). Revenue increased as the EC Business performed well and also from the contributions of the subsidiaries acquired during the period (EGG CO., LTD. and Nihon Pet Small-amount Short-term Insurance Company). Conversely, profits decreased, with the main factors being the recording of an impairment loss on goodwill (¥424mn), mainly because of a review of the business plans of some consolidated subsidiaries, and in the Incubation & Investment Business, increases in upfront costs and M&A-related costs. When based on the non-GAAP indicator that excludes temporary costs, operating profit decreased 78.9% to ¥99mn and profits were secured.

\* Following the sale of shares of consolidated subsidiary SOFTBRAIN Co., Ltd. in November 2020, the businesses of this company and its subsidiaries were classified as discontinued businesses. Also, following the decision to discontinue and dissolve Scala Works Inc., in June 2022, the businesses of this company were classified as discontinued businesses. Therefore, revenue and operating profit show amounts based on ongoing businesses and exclude discontinued businesses.

#### 2. Outlook for FY6/23

The outlook for FY6/23 is for revenue to increase 29.8% YoY to ¥13,000mn and operating profit of ¥1,000mn (a loss of ¥393mn in the previous period). Revenue is forecast to increase due to the full fiscal year contributions of the results of EGG and Nihon Pet Small-amount Short-term Insurance Company, and also because of the increases in revenue in the other existing businesses. In profits, the temporary costs recorded in the previous period will not be recorded in this period, while also the plan is for the higher profits in the IT/AI/IoT/DX Business, the HR & Education Business, and the EC Business to contribute. The Insurance Business has entered the scope of consolidation as a loss-making business, but the amount of its operating loss has been reduced by measures to improve work efficiency, including a review of the earnings structure and introductions of systems, and the aim is for it to become profitable on a monthly basis during FY6/24.

Summary

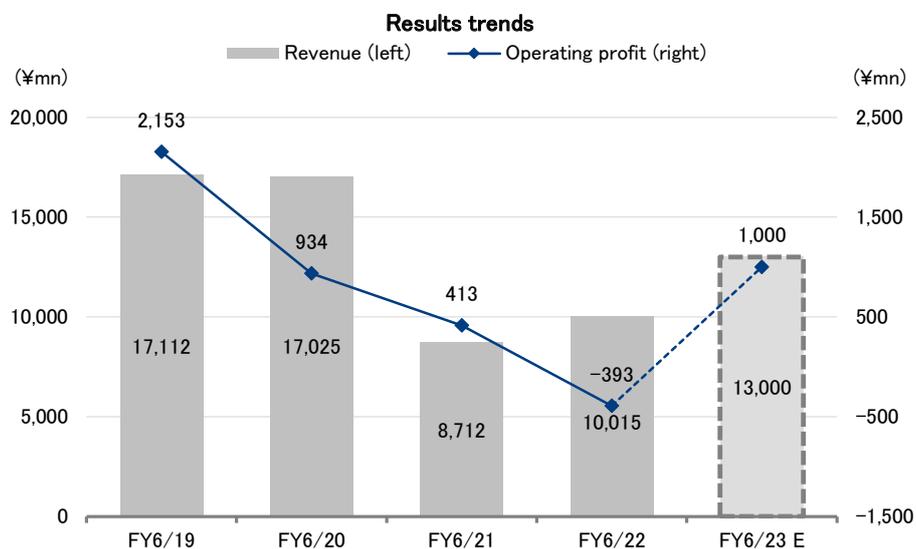
3. Progress of the Mid-term management plan

The mid-term management plan COMMIT5000 calls for advancement of the value creation support business, IT/AI/IoT-related business, and social issue-solving business. It targets revenue of ¥500bn and operating profit of ¥50bn in FY6/30 (and revenue of ¥100bn and operating profit of ¥10bn in FY6/25). The plan positions the public-private co-creation and healthcare as particular areas of focus. In FY6/22, the Company created new businesses and co-creation projects through the *Gyaku Propo* (reverse public fundraising proposals)\* public sector-private sector matching platform, and it worked on building a growth model. In FY6/23, the outcomes of these initiatives are starting to be realized in terms of results. For the future, the Company has set a strategy of accelerating growth through new orders for co-creation projects and also through the horizontal development of the co-creation projects it has worked on so far. If it makes steady progress with these initiatives, earnings are also expected to enter a high-growth stage.

\*“*Gyaku Propo*” is a co-creation service where companies indicate what social issues are interesting to them and local governments propose ideas and plans for solving issues, and therefore a framework that reverses the conventional process for public offering proposals and bidding.

Key Points

- In FY6/22, although the EC Business continued to perform well, posted an operating loss due to the increase in upfront investment costs and the recording of temporary costs
- In FY6/23, revenue will increase by double digits, including from the effects of M&A, and earnings will enter a high-growth stage
- Has planted the seeds for growth toward achieving the mid-term management targets, and going forward, is aiming to accelerate earnings growth while developing



Note: FY6/21 results are figures for ongoing businesses excluding SOFTBRAIN and its subsidiaries. The FY6/22 results are figures for the ongoing businesses excluding SOFTBRAIN, its subsidiaries, and Scala Works  
 Source: Prepared by FISCO from the Company's financial results

## ■ Company profile

### An IT development and services company that is expanding its business areas through M&A and continuing to grow

#### 1. History

The Company was founded in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204\* mainframe database management system license from MITSUI KNOWLEDGE INDUSTRY CO., LTD.

\* Database management system (DBMS) that was developed by US-based Computer Corporation of America and Sirius Software (now, Rocket Software). Customers were large companies in Japan such as the Bank of Japan <8301> and Tokyo Electric Power Company Holdings, Inc. <9501>. Demand for it ceased due to changes in the market environment, and the service was ended in the fall of 2016.

In 2000, the Company determined that it needed to change its business structure to continue growing amid the migration of corporate information systems from mainframes to distributed processing (client/servers), and it started expanding its business through M&A utilizing funds obtained from its IPO in 2001. It developed widely its own SaaS/ASP services and realized steady results growth through its recurring-income earnings model, and as a result, its share listing was designated to the Tokyo Stock Exchange (TSE) 1st Section in 2014.

As measures toward building a value co-creation platform under mid-term management plan COMMIT5000 starting in 2019, the Company established Scala Partners, Inc. in July of the same year, and then made wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October and Grit Group Holdings Co., Ltd., which provides HR & Education Business, in April 2020. More recently, the Company made subsidiaries of EGG, an IT system developer, in February 2022, and then Nihon Pet Small-amount Short-term Insurance Company, which offers small-amount short-term insurance, in April 2022.

To conduct more flexible management, the Company switched to a holding company organization in 2004, and in FY6/16, it changed its accounting standards to IFRS to disclose its results. The Company moved its listing to the TSE Prime Market in line with the TSE's transition to new market segments in April 2022.

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## Company profile

## History

Date	Major event
December 1991	Founded Database Communications (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software (product name: PatentManager) with the aim of entering the intellectual property system field
October 2003	Acquired Dbecs Co., Ltd. as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia Inc. as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	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
June 2006	Merged subsidiaries Vodamedia and Dbecs and changed the company name to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
November 2010	Acquired NewsWatch Inc. as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications and NewsWatch (now, Scala Communications Inc.)
May 2014	Listing transferred to the TSE Second Section
December 2014	Shares elevated to the TSE First Section
November 2015	Acquired TriAx Corp. as a subsidiary
January 2016	Renamed subsidiary Database Communications as PAREL, Inc.
July 2016	Acquired SOFTBRAIN Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc.
December 2016	Merged the subsidiaries Digi-Ana Communications and TriAx Corp. and changed the trade name to Scala Communications Inc.
August 2017	Acquired plube Co., Ltd. as a subsidiary
March 2018	Acquired Leoconnect, Inc. as a subsidiary
October 2018	Acquired Connect Agency Inc. as a subsidiary
November 2018	Established Scala Next, Inc.
December 2018	Established the Scala Next, Inc., Mandalay branch (Myanmar)
July 2019	Established Scala Partners Inc.
October 2019	Made a subsidiary of J-Phoenix Research Inc.
November 2019	Established SCL Capital LLC.
April 2020	Made a subsidiary of Grit Group Holdings Co., Ltd.
June 2020	Invested in MyanCare, a health-tech company in Myanmar that provides remote medical services
August 2020	Established Scala Ace Co., Ltd. as a joint venture with ACE Data Systems Ltd., a major IT company in Myanmar (ownership ratio: 35%)
September 2020	Established Social Studio Inc. as a joint venture with Branding Technology Inc. in order to promote DX to the national and local governments (ownership ratio: 51%)
November 2020	Developed the reverse public offering proposal service called "Gyaku Propo" specializing in SDGs for companies' new business development
March 2021	Excluded SOFTBRAIN Co., Ltd. from the scope of consolidation due to the transfer its shares
June 2021	Established Scala Truva, Inc.
August 2021	Made a subsidiary of readytowork Co., Ltd.
November 2021	Established SOCIALX, INC.
February 2022	Made a subsidiary of EGG CO., LTD.
April 2022	Moved its listing to the TSE Prime Market in line with the TSE's transition to new market segments Acquired Nihon Pet Small-amount Short-term Insurance Company

Source: Prepared by FISCO from the Company's website and press releases

## Engaged in six business segments: the IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business

### 2. Business description

The Company reorganized its business segments into six segments—IT/AI/IoT/DX Business, Customer Support Business, HR & Education Business, EC Business, Insurance Business, and Incubation & Investment Business—and discloses information on them.

On looking at the Group companies responsible for each business segment, the IT/AI/IoT/DX Business is comprised of eight companies, centered on Scala Communications, Inc. Of these, Retool, Inc. plans, develops and sells cloud activity management tools that visualize the various processes in corporate activities, however, its track record of introductions is still small and its effects on results is negligible. Also, Social Studio Inc. is a subsidiary established in September 2020 as a joint venture with Branding Technology Inc. <7067> in order to support the promotion of DX and SDGs to the national and local governments. In addition to above, EGG, which became a subsidiary at the end of February 2022, is a pioneer that developed the first core system on the part of local governments in Japan accompanying the start of the “Furusato Nozei” taxation system, and its strengths include its network of many local governments (it has a track record of installing the system to more than 680 or a third of local governments in Japan).

Leoconnect, Inc., which became a subsidiary in 2018, is engaged in the Customer Support Business, while four companies in total, of the three companies\* of Athlete Planning, Inc., which became a subsidiary in 2020, Sports Stories, Inc., and FourHands, Inc., and also Broncos20 Co., Ltd. that was made a subsidiary by Sports Stories in March 2022, comprise the HR & Education Business. The EC Business is conducted by Scala PLAYce, Inc., which became a subsidiary in 2017, while the Insurance Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which became a subsidiary in April 2022. Moreover, the Incubation & Investment Business are conducted by Scala Partners, Inc., J-Phoenix Research, Inc., SOCIALX.INC, SCL Capital LLC, and the SCSV-1 Investment Limited Partnership. The Group also includes the Company itself as the holding company.

\* These three companies were placed under the umbrella of Grit Group Holdings Co., Ltd. that was made a subsidiary of the Company in April 2020. But currently they are the Company's subsidiaries, while Scala Works Inc. was liquidated at the end of June 2022.

Company profile

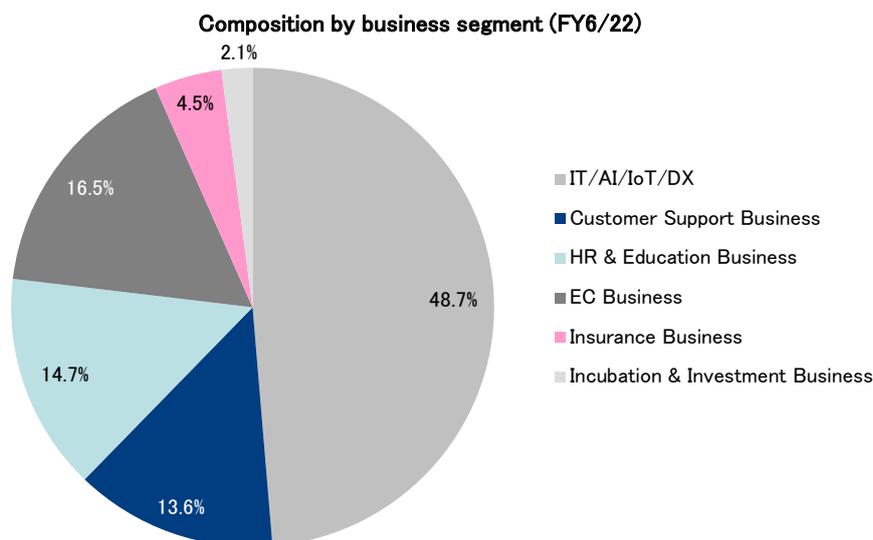
Subsidiaries by business segment and business content

Business segment	Subsidiary	Main business
IT/AI/IoT/DX Business	Scala Communications, Inc.	Provision of SaaS/ASP services
	Scala Service, Inc.	
	Scala Next Inc.	Development of SaaS/ASP services, offshore development
	readytowork Co., Ltd.	
	Connect Agency, Inc.	Cloud-based PBX services
	Retool, Inc.	Planning, development, and sales of cloud activity management tools
	Social Studio Inc.	Promotion of DX and SDGs to the national and local governments (joint venture with Branding Technology Inc.)
	EGG CO., LTD.	Systems development, maintenance, and network construction
Customer Support Business	Leoconnect, Inc.	Customer support consulting (call center operations, etc.)
HR & Education Business	Athlete Planning, Inc.	HR recruiting (new graduate recruiting, mid-career recruiting) support, etc.
	Sports Stories, Inc.	Exercise education, sports school operation, etc.
	FourHands, Inc.	Infant education, community development support, etc.
	Broncos20 Co., Ltd.	Basketball club team management
EC Business	Scala PLAYce, Inc.	Management of an EC site for the buying and selling of battle-type trading cards
Insurance Business	Nihon Pet Small-amount Short-term Insurance Company	Small-amount short-term insurance
Incubation & Investment Business	Scala, Inc.	Group head office, holding company functions, investment business
	Scala Partners, Inc.	Innovation, incubation, investment
	J-Phoenix Research Inc.	Value creation management support (creation of analyst and integrated reports, fund management support)
	SOCIALX, INC.	Planning and operation of the <i>Gyaku Propo</i> public-private co-creation platform
	SCL Capital LLC	Investment fund management
	SCSV-1 Investment Limited Partnership	Investment fund

Note: As of the end of June 2022

Source: Prepared by FISCO from the Company's results briefing materials

Looking at the composition of sales by business segment in FY6/22, the IT/AI/IoT/DX Business provided 48.7%, Customer Support Business 13.6%, HR & Education Business 14.7%, EC Business 16.5%, Insurance Business 4.5%, and Incubation & Investment Business 2.1%, making the IT/AI/IoT/DX Business the mainstay business.



Source: Prepared by FISCO from the Company's financial results

Company profile

### (1) IT/AI/IoT/DX Business

The IT/AI/IoT/DX Business develops and provides various types of services, including SaaS/ASP services (i-series), such as inquires via the Internet and telephone, information searches, and applications, and it is working on increasing profitability and stability through a recurring-income business model. It is also using as a hook its approaches made through easy-to-understand SaaS/ASP services and the Scala Group's other business, and it is progressing initiatives that will lead to orders for new development projects.

As a part of this series of initiatives, it is progressing DX that uses IT/AI/IoT (with a strong awareness of transformation in particular), and in order to accelerate the creation of new businesses and new services and to redefine its existing business, it is actively progressing collaborations with partners that are experts in related technologies in various industries. For example, for the planning and development of new services to respond to COVID-19 and to progress DX, and for introductions of the main services, it is implementing DX policies focused on regional local governments and the finance industry, conducting demonstration experiments for next-generation digital healthcare services through co-creation with a pharmaceutical company and a non-life insurance company, and progressing initiatives to create services.

In co-creation projects, the Group is jointly developing new businesses for social issues and providing systems to solve these problems.

Going forward, the Company's strategy is to accelerate growth by participating in many co-creation development projects that will lead to solutions for social issues, while for SaaS/ASP services as well, cases of it providing these services as one development project menu are forecast to increase. The fees for SaaS/ASP services are around ¥100,000 per month, but in the case of co-creation projects, fees are more than ¥2mn per month and it becomes a large-scale, recurring-income business. The lead time from the order to the start of service provision is becoming longer, but it is considered that operating efficiency is improving.

#### Description of the IT/AI/IoT/DX Business services

Type	Product name	Description
Information searches	i-search	Internal search engine for websites
	i-ask	FAQ system
Content management	i-catalog	Product site management system
	i-linkcheck	Link check services
	i-linkplus	Service for displaying links to related pages
Content delivery	i-gift	Digital gift service
	Fresheye™	Search portal site
	Corporate news services	News distribution service for corporations
Various types of reception	SaaS-type IVR	24-hour, 365-day automated voice response
	i-shopnavi	Store reservation support system
	Campaign website construction	Campaign website construction and reception
Inquiry management	i-assist	Web chatbot system
	i-livechat	Web chat system
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
IoT, big data	Safe driving analysis	Processing and management of big data

Source: Prepared by FISCO from the Company's results briefing materials and website

## Company profile

**(2) Customer Support Business**

The Customer Support Business, which is conducted by Leoconnect, provides consulting services for the management of inbound call centers, from the receipt of inquiries about customer companies' services and products through to the follow-up after responding to inquiries, and its main customers include the HIKARI TSUSHIN <9435> Group and its agencies. It is progressing introductions of services such as i-livechat, i-assist, and IVR into call centers, while in addition, it is aiming to improve the productivity of call centers by introducing the C7 core system, which was developed by Scala Communications reflecting customers' needs (launched in November 2019). Also, the Company is aiming to improve profitability by constructing its own call centers and acquiring customers from outside of the HIKARI TSUSHIN Group.

**(3) HR & Education Business**

In the HR & Education Business, 65% of sales come from the HR business and 35% of sales come from the education business. In the HR business, Athlete Planning provides services including a comprehensive employment support system for physical education students, a job hunt support service specifically for female students, and a second career support service for professional athletes. Currently, the source of earnings is from the planning and management of corporate joint briefing meetings to recruit new graduates. This service starts selling exhibition booths to companies in June every year for events scheduled to be held from December to March of the following year, presenting a seasonal factor for results with earnings concentrated in 3Q. There is also the situation of the novel coronavirus pandemic (hereafter, COVID-19) and in response to this, the Group is working to hold recruitment events online.

In the education business, FourHands provides educational services with high added value targeting infants to elementary school students. Its services include the Minna no Hoikuen nursery schools, Universal Kids international combination day care centers and preschool, UK Academy for cultivating an international sensibility among schoolchildren, and Largo KIDS day services, such as after-school activities specializing in exercise. Also, Sports Stories provides sports classes, including the Fine'z baseball schools for children, the BEAUT soccer school, the Dunkers basketball schools and Ballschule schools. A feature of these businesses is that they emphasize not only athletic ability, but also growth of noncognitive skills. Broncos20, which was made a subsidiary by Sports Stories in March 2022, manages THE SAITAMA BRONCOS, which belong to the third division of the B.LEAGUE professional basketball league. It has continuously conducted profitable management, and in the future, it will work on new businesses that utilize the Group's resources, including managing fan club websites and dispatching coaches for club activities in schools.

**(4) EC Business**

In the EC Business, Scala PLAYce buys and sells trading cards for battle-type games, and operates Card Shop - Yuyu-Tei, a reuse EC site with the functions of a capture site. The site has high name recognition in the gaming industry and is influential to the extent that it is used as a reference indicator for the pricing of used cards, and so it is known as the industry's No. 1 EC shop. From FY6/20, it also started purchases from overseas users and there are many purchases made by overseas users.

**(5) Insurance Business**

The Insurance Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which was made a subsidiary in April 2022. It provides the Inu to Neko no Hoken (Insurance for Dogs and Cats) insurance for pets, and the features of its unique insurance products include a 90% reimbursement rate. For the future, it plans to expand its business from pet insurance into various other insurance areas, such as insurance for individuals and in the financial area. It is also considering developing a business to support the transfer of risks facing companies, local governments and others by data analysis and risk analysis that use AI, adopted as an optimal risk transfer technology.

## Company profile

**(6) Incubation & Investment Business**

The Incubation & Investment Business consists of business investment conducted by the Company and regional revitalization-related services in collaboration with local governments. It also includes engagement in value creation management support by J-Phoenix Research, new business development by Scala Partners, and regional revitalization-related services centered on the management of the KomfortaWorkation website to introduce workation facilities. In addition, it includes the *Gyaku Propo* public sector-private sector co-creation platform provided by SOCIALX; investments by SCSV1 Investment Limited Partnership, which is a value co-creation engagement fund managed by SCL Capital; and improvements in value relating to other investments.

The companies targeted for investment by the value co-creation engagement fund are listed companies with a market capitalization of up to ¥10.0bn for which ROIC of at least 15% is expected. The amount invested per company is in the ¥100-¥150mn range, and after making an investment, the shares are sold at the stage when the company's enterprise value has reached the expected level. The proceeds from that sale are then used to acquire shares in the next company targeted for investment.

## Aims to extreme social contribution by providing value for “society” and “the lives of individuals” based on DX

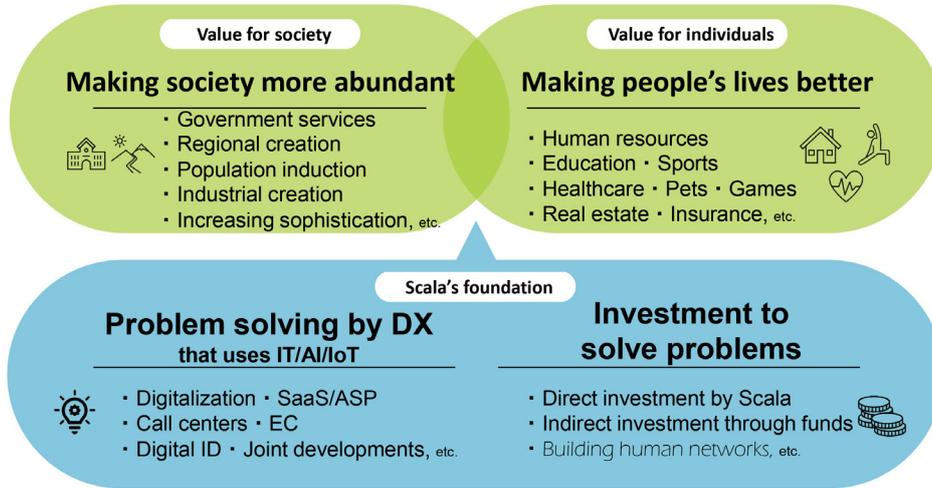
### 3. Management mission

The Company's management mission is to aim for extreme social contribution by strengthening its three capabilities, which are “the capability to determine real issues” (accurately understanding customer needs in direct sales), “the capability to discover the hidden value of resources” (focusing only on functions that meet needs and developments that create and customize the value of IT resources), and “the capability to maximize value by proposing and executing the optimal combination of issues and resources” (optimization, including of the cloud environment, and dispatching project managers as necessary who will contribute to maximizing the satisfaction of stakeholders), and thereby provide value for “society” and for “the lives of individuals” as a value co-creation platform.

The Group maximizes the value derived from its ability to solve problems based on DX by using IT/AI/IoT, including through direct business investment, indirect investment through funds, and building human networks, and it is providing services that eliminate the issues facing society and that make people's lives better. It is accumulating trust from society and individuals through this track record of initiatives and thereby creating competitive advantages, and it is aiming to circulate value and to achieve dramatic growth.

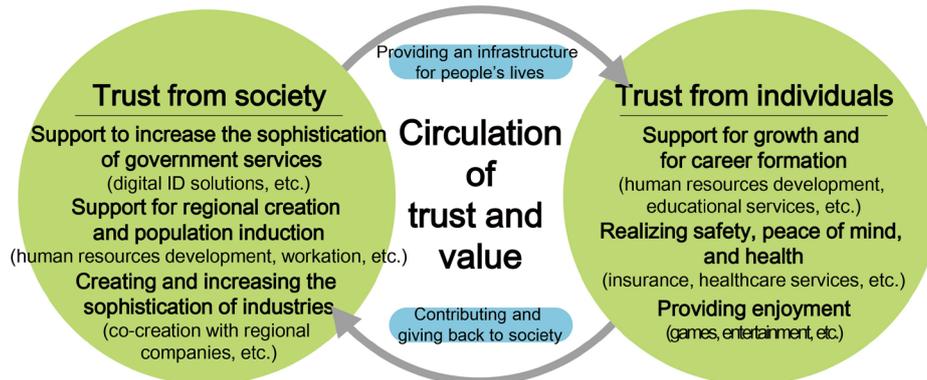
Company profile

Providing value for society and for the lives of individuals based on DX



Source: The Company's results briefing materials

Creating competitive advantages by accumulating trust



Source: The Company's results briefing materials

## Results trends

**In FY6/22, although the EC Business continued to perform well, posted an operating loss due to the increase in upfront investment costs and the recording of temporary costs**

### 1. Overview of FY6/22 results

In the FY6/22 consolidated results (ongoing business basis), revenue increased 15.0% YoY to ¥10,015mn, operating loss amounted to ¥393mn (compared with profit of ¥413mn in the same period of the previous fiscal year), loss before tax amounted to ¥411mn (compared with profit of ¥381mn a year earlier), and loss attributable to owners of parent amounted to ¥523mn (profit of ¥3,065mn a year earlier).

#### FY6/22 consolidated results (IFRS)

	FY6/21		Company forecast	FY6/22		
	Results	vs. revenue		Results	vs. revenue	YoY
Revenue	8,712	-	9,900	10,015	-	15.0%
Cost of sales	5,072	58.2%	-	5,873	58.6%	15.8%
SG&A expenses	3,316	38.1%	-	4,125	41.2%	24.4%
Other income/expenses	85	-	-	-341	-	-
Gain/loss on securities related to investment business	4	-	-	-68	-	-
Operating profit	413	4.7%	0	-393	-3.9%	-
Profit before tax	381	4.4%	0	-411	-4.1%	-
Profit attributable to owners of parent	3,065	35.2%	0	-523	-5.2%	-

Note: the values are based on the ongoing businesses excluding SOFTBRAIN, its subsidiaries, and Scala Works. Also, in FY6/21, profit attributable to owners of parent includes the gain on sale of SOFTBRAIN.

The FY6/22 Company forecasts are the values announced in May 2022

Source: Prepared by FISCO from the Company's financial results

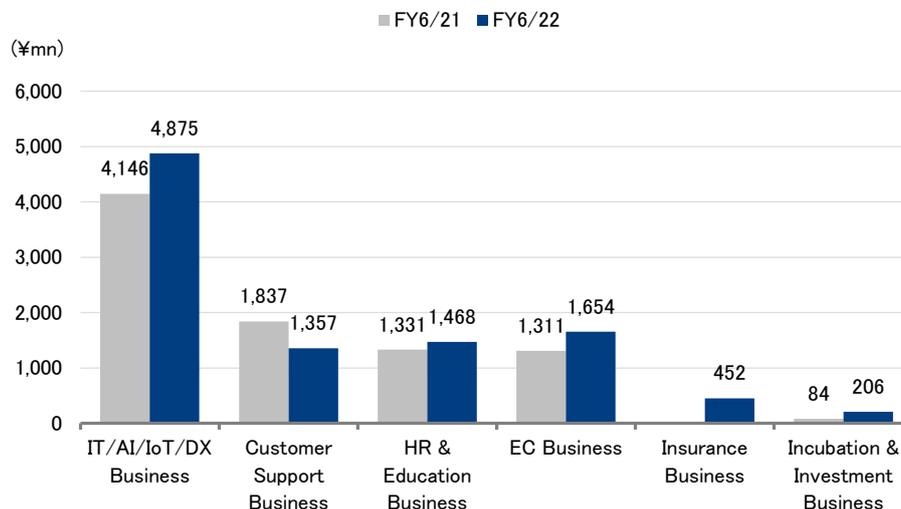
Revenue trended basically in line with the Company forecast and increased. This was because the EC Business performed well and also as revenue increased in the IT/AI/IoT/DX Business, including from the contribution of EGG that was made a subsidiary in February 2022. In addition, the Insurance Business was newly added following Nihon Pet Small-amount Short-term Insurance Company being made a subsidiary in April of the same year, and this and other factors covered for the decline in revenue in the Customer Support Business.

Conversely, for operating profit, although profits increased in the EC Business and the HR & Education Business, operating profit still declined, with the main factors being the increases in upfront costs and M&A-related costs in the IT/AI/IoT/DX Business and the Incubation & Investment Business, the recording of an impairment loss on goodwill of ¥424mn\* mainly due to a review of the business plans of Connect Agency Inc. and Four Hands Inc., and a recording of a loss of ¥68mn relating to investment business negotiable securities. When based on the non-GAAP indicator that excludes temporary costs such as the impairment loss, the loss relating to investment business negotiable securities, and M&A-related costs, operating profit decreased 78.9% to YoY ¥99mn and profits were secured.

\* Within the impairment loss, the impairment of goodwill was ¥252mn for Connect Agency and ¥105mn for FourHands.

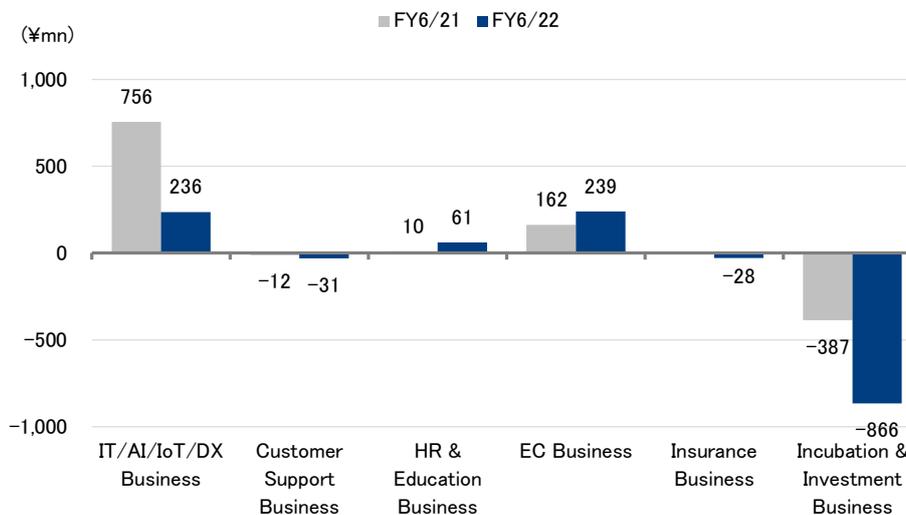
Results trends

Revenue by business segment



Source: Prepared by FISCO from the Company's financial results

Operating profit by business segment



Source: Prepared by FISCO from the Company's financial results

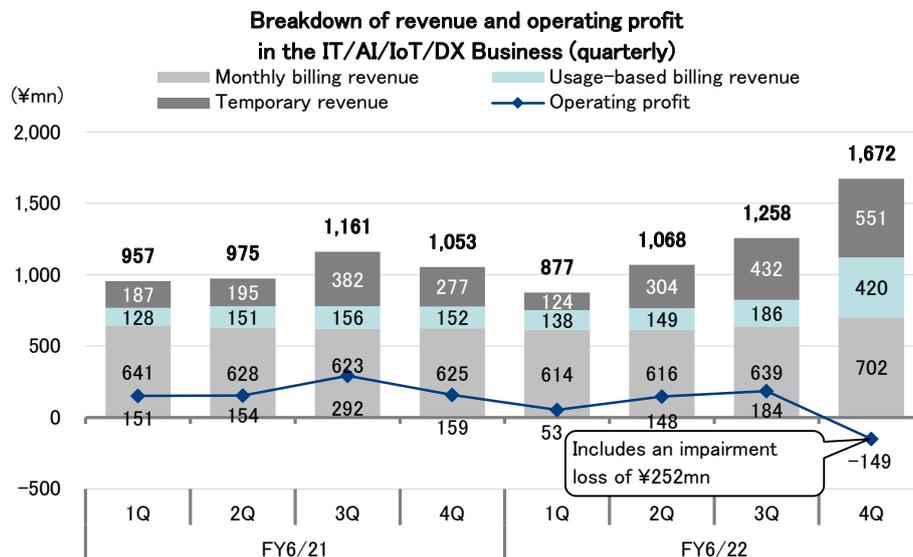
Results trends

## Strong performance in the EC Business with double-digit increases in both revenue and profits. Profit declined in the mainstay IT/AI/IoT/DX Business due to upfront investments, but rose before allocation of corporate expenses

### 2. Trends by business segment

#### (1) IT/AI/IoT/DX Business

In the IT/AI/IoT/DX Business, revenue increased 17.6% YoY to ¥4,875mn and operating profit decreased 68.8% to ¥236mn. But when based on the non-GAAP indicator, operating profit before the allocation of Company-wide costs increased 4.0% to ¥1,084mn. Looking by type of revenue, revenue from monthly billing increased 2.1% YoY to ¥2,571mn, revenue from usage-based billing rose 52.1% to ¥893mn, and temporary revenue, such as from contracted development projects, grew 35.5% to ¥1,411mn. As the Group focused on acquiring orders for large-scale, co-creation projects, such as for the planning and development of new services toward promoting DX for companies and for regional local governments, the pace of acquiring new customers for the mainstay i-series services slowed down, which caused the revenue growth to be sluggish. But conversely, due to EGG being made a subsidiary, revenue from usage-based billing and temporary revenue both grew significantly. Looking on a fiscal quarterly basis, from the 3Q to the 4Q, revenue from usage-based billing increased ¥234mn and temporary revenue increased ¥119mn, but it seems that the majority of this was from the contribution of EGG. EGG records revenue from monthly billing as well, and this was also the reason for the growth of revenue from monthly billing in the 4Q.



As a co-creation project, the Real Estate Trust DX Platform, which is a joint development with the Shinoken Group <8909>, recorded sales in the 2Q, and this was a factor behind the increase in revenue. This platform is a hybrid type real estate trading electronic platform that enables the selection of an entity-type book naming method and an observer-type book naming method, and it is first mechanism in the industry to use a digital ID solution (xID) that links to the My Number card as a personal authentication system. Going forward also, it plans to continue developments of additional functions, while it also has in its sights horizontal development to other real estate business operators.

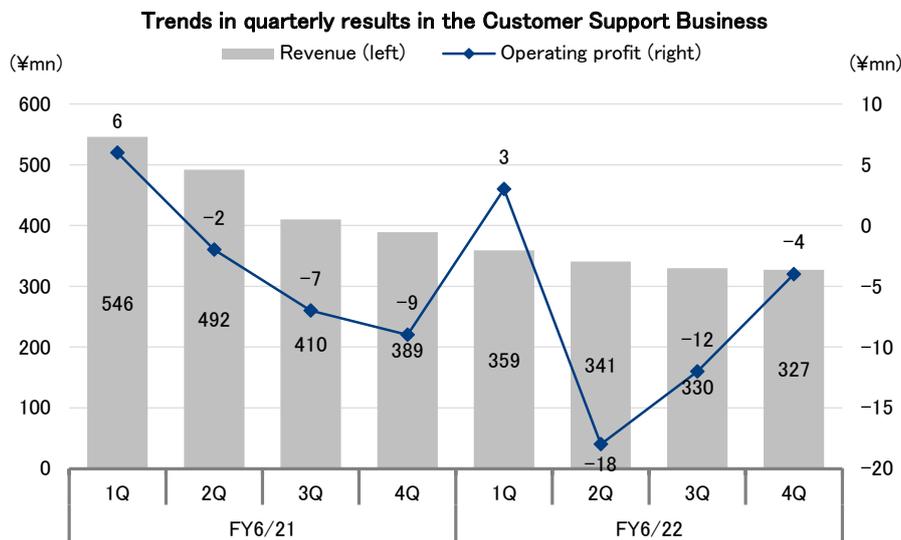
Results trends

In addition, as a co-creation project, the Company has started a collaboration with a major pharmaceutical company and a major non-life-insurance company in order to build the Smart Healthcare Platform, and they are developing healthcare services that will support companies' health management. For U-Medical Support, which it is working on as livestock DX, it is developing functions relating to remote medical treatment and the EG Genome (provisional name), which is an app to utilize dairy cow genome test results data, and it appears to have set a date for its release. For livestock DX, the Company is splitting the joint development costs with its collaboration partners of desamis Co., Ltd. and Mitsui Sumitomo Insurance Company, Limited, and although sales will be recorded, they will have hardly any effect on profits, and it is a scheme that generates earnings from the sharing of monthly usage fees from users (livestock farmers, veterinarians, etc.).

In profits, operating profit before the allocation of Company-wide costs increased ¥42mn YoY, but it appears that EGG's contribution was around ¥10mn (including acquisition costs). In addition, the effects of the higher revenue absorbed the increases in costs, such as the new project development costs, so an increase in profits was secured.

**(2) Customer Support business**

In the Customer Support Business, revenue decreased 26.1% YoY to ¥1,357mn, the operating loss was ¥31mn (a loss of ¥12mn in the previous period), and the operating loss before the allocation of Company-wide expenses was ¥28mn (profit of ¥32mn). In the conventional call center work for the HIKARI TSUSHIN Group, which provides the majority of revenue, it seems that there are signs of improvement in the downward trend in call center needs that has continued during the COVID-19 pandemic, while there have also been inquiries for several new call center projects, and progress is being made in acquiring projects for which work will start from FY6/23. In profits as well, the Group is working to improve the profit margin, including by improving costs through transferring projects to the Okinawa call center and measures that utilize RPA to improve the efficiency of various BPO work.



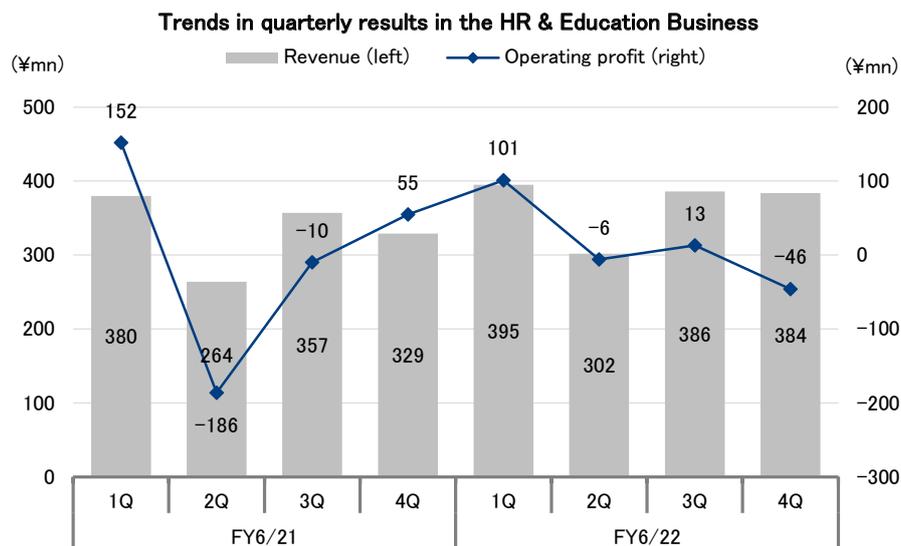
Source: Prepared by FISCO from the Company's results briefing materials

Results trends

**(3) HR & Education Business**

In the HR & Education Business, revenue increased 10.2% YoY to ¥1,468mn, operating profit rose 472.4% to ¥61mn, and operating profit before the allocation of Company-wide costs grew 31.6% to ¥227mn. Revenue and profits increased significantly due to the recovery of the human resources business, which had slumped in the previous period due to COVID-19. The main factors were that the Company strengthened the support structure for newly graduating students, while the number of recruitment-related events held also increased by 9 YoY to 81 events, recovering to the same level as before COVID-19. As a result, both revenue and operating profit set new record highs in this business.

In the education business, the Company is focusing on securing children for the UK Academy day care centers and preschools, which it started operating from the previous period, while it has also flexibly implemented measures for COVID-19, including holding various events at nursery schools and other locations. In addition, the Group is managing a pro basketball team and investigating a sports and government-related business through a collaboration between the national and local governments.

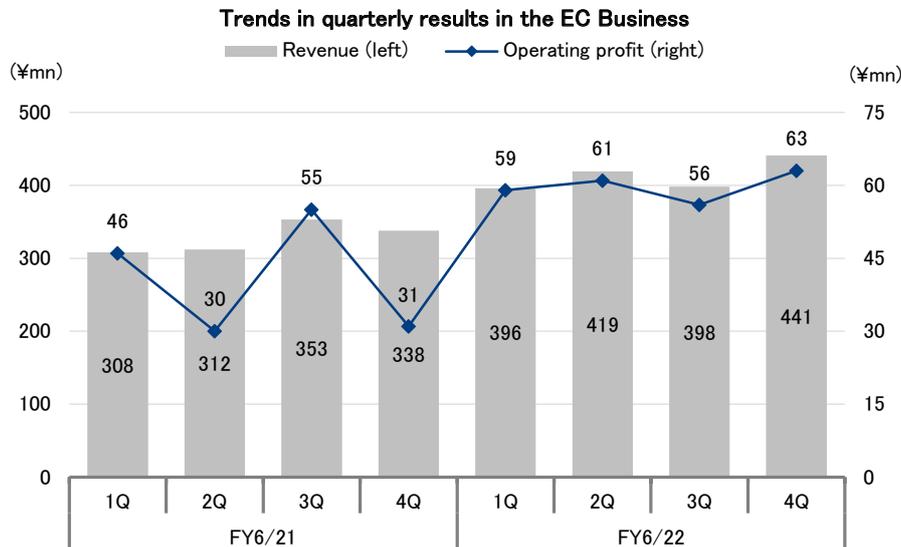


Source: Prepared by FISCO from the Company's results briefing materials

**(4) EC business**

In the EC Business, revenue increased 26.1% YoY to ¥1,654mn, operating profit rose 47.0% to ¥239mn, and operating profit before the allocation of Company-wide costs grew 40.4% to ¥281mn. So this business continued to achieve double-digit increases in revenue and profits and the results were new record highs. During the COVID-19 pandemic, there continue to be needs for the online buying and selling of trading cards, and furthermore the initiatives for digital marketing, such as SEO, were successful. Also, the number of users of the iOS app released at the end of the previous period is steadily increasing, while the number of members of the Card Shop - Yuyu-Tei e-commerce website increased by 34.3% on the end of the previous period to 188,000 people, which also contributed to the higher earnings.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

**(5) Insurance Business**

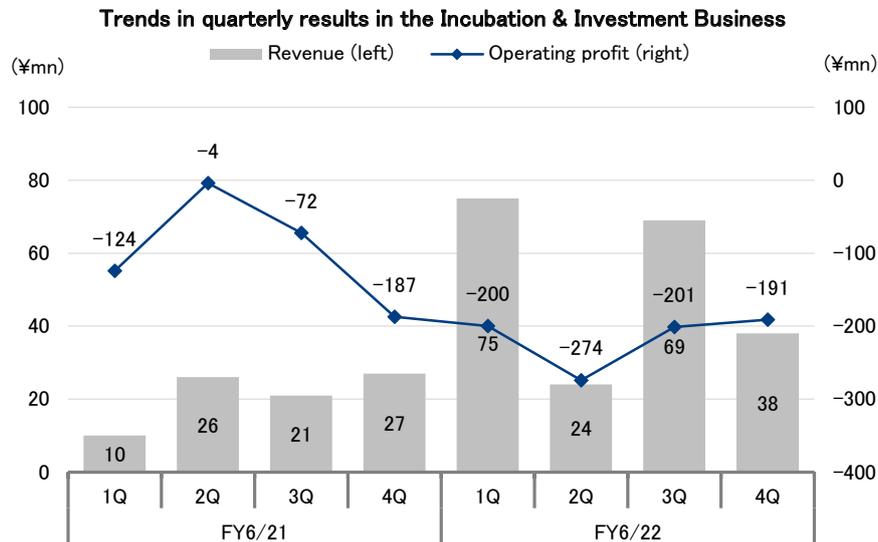
In the Insurance Business, revenue was ¥452mn and the operating loss was ¥28mn. Against the backdrop of the expansion of pet-related industries, the number of pet insurance contracts steadily increased and insurance revenue trended upward compared to in the previous year. But in profits, despite the increase in contracts due to the rise in the number of consultations at medical facilities because of pet diseases and injuries and the spiking prices of medical costs, a loss was recorded, including due to the acquisition costs.

**(6) Incubation and Investment business**

In the Incubation & Investment Business, revenue grew 143.7% YoY to ¥206mn, operating loss was ¥866mn (loss of ¥387mn in the same period of the previous fiscal year), and operating loss before allocation of corporate expenses was ¥353mn (loss of ¥138mn). Revenue increased due to the steady growth of *Gyaku Propo* and also from the growth of the workation service\*. But profits decreased, with the main factors including increases in development costs for growth and upfront costs, such as personnel costs, the increases in various advisory costs alongside the business investments, and the decline in the share prices of the listed companies that the SCSV1 Investment Limited Partnership has invested in. However, the majority of these costs are temporary ones.

\* A service to provide experiences that connect regions and people through preferred worksites and new work, which mainly entails managing the KomfortaWorkation website that introduces workation facilities.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

The number of completed *Gyaku Propo* matching contracts increased by 4 YoY to 6 contracts, and the number of outsourced development projects as a result of matching rose by 2 to 3 projects, and the Group is steadily accumulating a track record in this area. *Gyaku Propo* is a service private-sector companies, such as large or start-up companies, can use when they want to speedily implement measures, such as ascertaining demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a company aiming to win a project produces and submits a project plan to a soliciting local government with a budget, and a third party evaluates and selects a winner. Conversely, in *Gyaku Propo*, a company openly solicits local governments who may want to participate in the theme for solving social issues that the company plans while shouldering the costs itself. Local governments can participate by preparing and submitting proposal documents, such as demonstration experiments, in accordance with the theme. As multiple local governments may be selected, companies can also conduct many demonstration experiments. Budgets for the projects will be paid to selected local governments by companies participating in the public offering in the form of “donations.” While the Company receives little revenue directly from *Gyaku Propo*, it has received orders for system development projects utilizing *Gyaku Propo*, and has positioned it as a tool for expanding public-private co-creating projects because it also increases opportunities for receiving orders for projects such as DX support matched local governments. In fact, thanks to matchings through *Gyaku Propo*, the Company received orders from Hino Town in Shiga Prefecture to develop a COVID-19 vaccination appointment system and an appointment system using the My Number Card.

## Has an abundance of cash on hand and is highly financially sound

### 3. Financial condition and business indicators

Looking at the financial condition at the end of FY6/22, total assets were up ¥486mn compared to the end of the previous fiscal year to ¥20,816mn. In current assets, following the start of the Insurance Business, re-insurance assets of ¥363mn were recorded, but cash and cash equivalents decreased ¥184mn, while other current assets also decreased. In non-current assets, due to the implementation of the M&A, there were increases of goodwill of ¥406mn, intangible assets of ¥1,043mn, and investment business negotiable securities of ¥263mn.

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Total liabilities increased ¥1,951mn on the end of the previous period to ¥11,810mn. Interest-bearing debt increased ¥977mn, while insurance contract liabilities of ¥644mn were recorded following the start of the Insurance Business. Total equity decreased ¥1,464mn to ¥9,006mn, with the main factors including the recording of a loss attributable to owners of parent of ¥523mn, a decline in retained earnings of ¥634mn due to the payment of dividends, and ¥174mn to acquire treasury shares.

Looking at the management indicators, the ratio of equity attributable to owners of parent declined from 50.0% at the end of the previous fiscal year to 41.7%, while the interest-bearing debt ratio increased from 58.8% to 80.0%. So it appears that the Company's financial constitution worsened slightly, but the main factor behind this was the increase in upfront costs to actively conduct M&A, which is in line with the initial strategy (aiming for high growth by allocating the funds from the sale of SOFTBRAIN shares to M&A and growth investment). The Company still has an abundance of net cash (cash and cash equivalents - interest-bearing debt) of ¥2,674mn, so it can be judged to be highly financially sound. On entering 2022, it has conducted 2 M&A and for the time being its policy is to focus on PMI (the integration process after an M&A). At FISCO, we think that it will now take a break on conducting new M&A following these acquisitions.

**Consolidated statement of financial position (IFRS)**

	(¥mn)				
	FY6/19	FY6/20	FY6/21	FY6/22	Change
<b>Current assets</b>	10,165	11,780	12,991	12,030	-960
(Cash and cash equivalents)	6,393	7,822	9,809	9,625	-184
<b>Non-current assets</b>	8,529	13,132	7,338	8,786	1,447
(Goodwill)	6,192	7,086	1,949	2,356	406
<b>Total assets</b>	18,694	24,912	20,330	20,816	486
<b>Total liabilities</b>	9,086	14,569	9,859	11,810	1,951
(Interest-bearing debt)	5,978	8,632	5,973	6,951	977
<b>Total equity</b>	9,608	10,343	10,470	9,006	-1,464
(Equity attributable to owners of parent)	7,010	7,402	10,162	8,687	-1,475
(Non-controlling interests)	2,597	2,940	308	318	10
<b>Indicators</b>					
<b>(Stability)</b>					
Equity attributable to owners of parent ratio	37.5%	29.7%	50.0%	41.7%	-8.3pt
Interest-bearing debt ratio	85.3%	116.6%	58.8%	80.0%	21.2pt
<b>(profitability)</b>					
ROE	14.1%	4.5%	34.9%	-5.5%	-40.4pt
ROA	12.2%	0.9%	1.7%	-2.0%	-3.7pt
Operating profit margin	12.6%	3.0%	4.7%	-3.9%	-8.6pt

Note: the profitability indicators from FY6/20 onwards are based on the ongoing businesses

Source: Prepared by FISCO from the Company's financial results

## ■ Outlook

### In FY6/23, revenue is set to grow by double digits, including from the effects of the M&A, and earnings will enter a high-growth stage

#### 1. Outlook for FY6/23

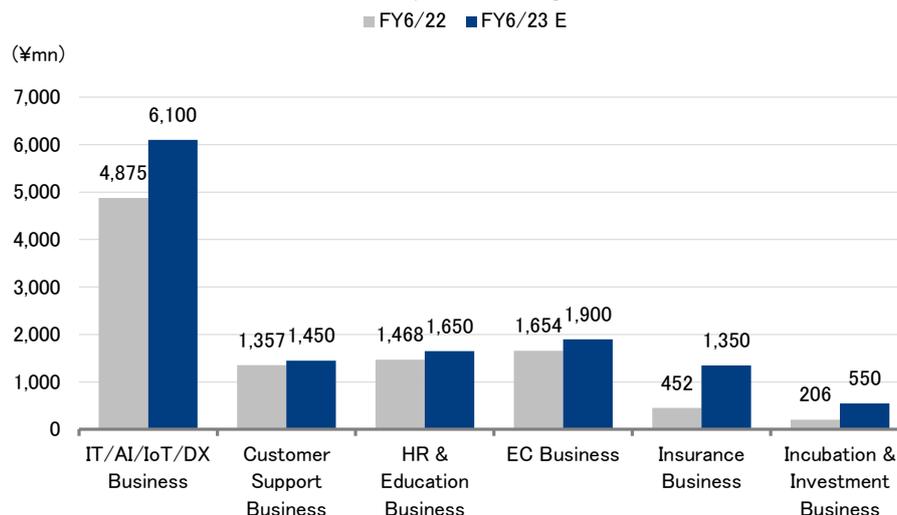
The outlook for the FY6/23 results is for revenue to increase 29.8% YoY to ¥13,000mn, operating profit of ¥1,000mn (a loss of ¥393mn in the previous period), profit before tax of ¥970mn (a loss of ¥411mn), and profit attributable to owners of parent of ¥650mn (a loss of ¥523mn). Revenue is forecast to increase from the full fiscal year contributions of the results of EGG and Nihon Pet Small-amount Short-term Insurance Company, and also from the increases in revenue in the other existing businesses. In profits, the temporary costs recorded in the previous period will not be recorded in this period, while the plan is for the IT/AI/IoT/DX Business, the HR & Education Business, and the EC Business to contribute to the higher profits.

**FY6/23 consolidated results forecast (IFRS)**

	FY6/22		FY6/23		Change	
	Results	vs. revenue	Company forecast	vs. revenue	Amount	Ratio
Revenue	10,015	-	13,000		2,984	29.8%
Operating profit	-393	-3.9%	1,000	7.7%	1,393	-
Profit before tax	-411	-4.1%	970	7.5%	1,381	-
Profit attributable to owners of parent	-523	-5.2%	650	5.0%	1,173	-
Basic earnings per share (¥)	-29.66		38.56			

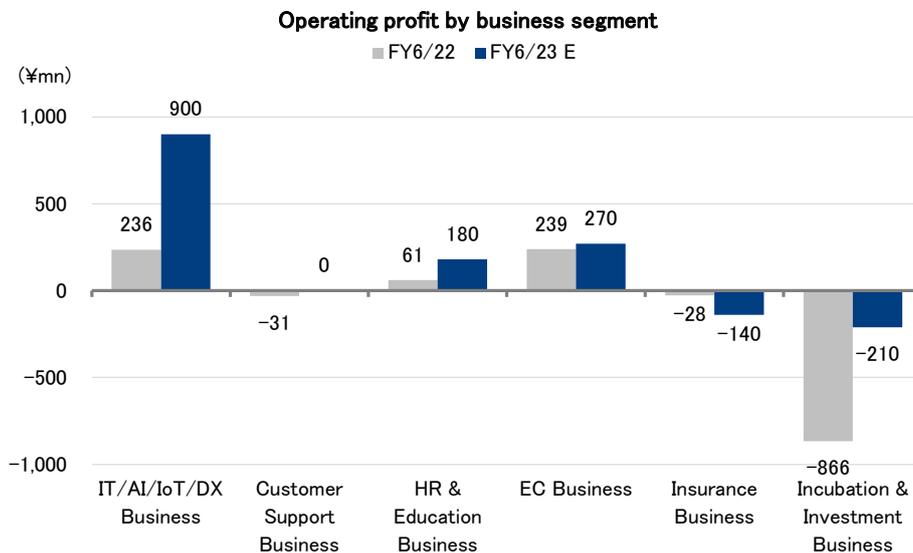
Source: Prepared by FISCO from the Company's financial results

**Revenue by business segment**



Source: Prepared by FISCO from the Company's financial results and results briefing materials

## Outlook



Source: Prepared by FISCO from the Company's financial results and results briefing materials

**(1) IT/AI/IoT/DX Business**

In the IT/AI/IoT/DX Business, the forecasts are for revenue to increase 25.1% YoY to ¥6,100mn and operating profit to rise 281.1% to ¥900mn. Revenue is expected to increase by double digits from the full fiscal year contribution of the results of EGG, and also due to other factors, including the recording of multiple co-creation projects under development since the previous period and the increase in the number of contracts for ASP services, such as the i-series. In FY9/21, which is immediately before EGG was acquired, it recorded net sales of ¥1,714mn and operating profit of ¥170mn, so its earnings are expected to be close to these levels.

Looking at the number of contracts by service in FY6/23, for the mainstay i-series, it is forecast to increase by 2.1% YoY to 2,550 contracts; for enterprise projects (customized projects) that have a somewhat high unit price, to increase by 2.7% to 190 projects; and for large-scale projects such as co-creation projects, to increase by 6.1% to 35 projects. As previously explained, in co-creation projects, revenue is forecast to be recorded for projects including the project to develop additional functions for the Shinoken Group's Real Estate Trust DX platform, the project for the livestock DX platform and app, and a systems development project for credit companies. Toward FY6/25, the Company is targeting high growth by focusing on acquiring contracts for co-creation projects.

**Number of contracts by service**

(Unit: Number of contracts)

	Price	Cancellation rate	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
					Forecast	YoY	
<b>i-series</b>	Approx. ¥100,000/month	Under 7%	2,401	2,498	2,550	2.1%	3,000
<b>Enterprise</b>	Approx. ¥300,000/month	Under 2%	165	185	190	2.7%	250
<b>Co-creation</b>	Over ¥2mn/month	0%	27	33	35	6.1%	100

Source: Prepared by FISCO from the Company's results briefing materials

### Outlook

Topics include a frailty\* early detection system that EGG is working on in the healthcare area. It is a cloud service for the early detection of frailty by using a PC or smartphone to answer simple questions. Alongside the progression of the super-aging society, it will support “the extension of healthy life expectancy” and the “reduction of social security expenses” for local governments through preventative nursing care. In July 2022, the Company started a demonstration experiment in Motomiya City, Fukushima Prefecture, while it seems there have also been inquiries for demonstration experiments from other local governments. If its preventative nursing care effects are confirmed from the results of these experiments, it may progress to the stage of fully fledged introductions. The contracting parties will be local governments and the business model is receiving system-usage fees. The healthcare area is one of the Company’s focus fields, so it may provide this system as one service menu.

| \* A status between human health and a need for care, with declines in physical and/or cognitive functions. |

### (2) Customer Support Business

In the Customer Support Business, the forecasts are for revenue to increase 6.8% YoY to ¥1,450mn and operating profit of ¥0mn (a loss of ¥31mn in the previous period). In addition to acquiring new customers, the plan is to strengthen capacity in order to meet the demand by building a structure to conduct call center work at home by July 2022 and increasing the number of call center seats at the Company’s own center in Okinawa. In co-creation projects, synergies can be expected, such as collective designs in the customer support field and the construction of operable organizational structures.

Looking at the number of call center seats, the plan is on the one hand to reduce the number of call center seats that have been the conventional consultation target by 14.7% YoY to 250 seats, but on the other hand to increase the number of in-house call center seats by 4.3 times to 60 seats, with the aim of increasing the total number of contracts by 16.7% YoY to 300 contracts. Toward FY6/25, the strategy is to raise-up the profit margin by further increasing the in-house call center ratio alongside the growth in the number of contracts.

**Number of call center seats and contracts**

	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
			Forecast	YoY	
Number of call center seats for consulting	300	293	250	-14.7%	100
Number of in-house call center seats	0	14	60	328.6%	500
Number of customer support contracts acquired	250	257	300	16.7%	500

Source: Prepared by FISCO from the Company’s results briefing materials

### (3) HR & Education Business

In the HR & Education Business, the forecasts are for revenue to increase 12.4% YoY to ¥1,650mn and operating profit to rise 191.7% to ¥180mn. Within this business, in the human resources business, revenue and profits are forecast to increase from the continued growth in revenue from recruitment-related events for new graduates and also the progress made in the investigation for the launch of a new business to strengthen in the area of referrals for mid-career-hire human resources. The number of registered job seekers is a KPI, and the forecasts are for new graduates of physical education schools to be unchanged YoY at 18,000 people, new female graduates to increase 15.1% to 16,000 people, and the number of registered job seekers to increase 16.9% to 9,000 people. Also, toward FY6/25, the Company’s policy is to focus on increasing the number of registration of new female graduates and job seekers through human resources referrals. Conversely, for physical education schools, the registration rate is already at a high level, so stable growth is expected.

Outlook

**Number of registered job seekers and number of hiring-related events held**

	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
			Forecast	YoY	
Number of registered job seekers (new graduates of physical education schools)	17,000	18,000	18,000	0.0%	21,000
Number of registered job seekers (new female graduates)	13,000	13,900	16,000	15.1%	22,000
Number of registered job seekers (human resources referral)	7,000	7,700	9,000	16.9%	14,000
Number of hiring-related events held	72	81	84	3.7%	110

Source: Prepared by FISCO from the Company's results briefing materials

In the education business, the plan for September 2022 is for 1 Universal Kids nursery school and 2 facilities operated on a contract basis (of which, 1 in Thailand). This business will also develop and sell online educational content, conduct licensing, and open school facilities specializing in the English language. In the sports area as well, Broncos20 plans to progress the launch of a new business.

**Number of daycare centers and preschools operated by the Company and number of facilities operated on a contract basis**

	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
			Forecast	YoY	
Number of daycare centers and preschools operated by the Company	6	7	8	Increase of 1	8
Number of facilities operated on a contract basis	0	0	2	Increase of 2	5

Source: Prepared by FISCO from the Company's results briefing materials

**(4) EC Business**

In the EC Business, the forecasts are for the double-digit increases in revenue and profits to continue, with revenue to rise 14.8% YoY to ¥1,900mn and operating profit to grow 12.9% to ¥270mn. As a new initiative, the Company is developing a password-less login solution that is enhanced with strong security and an app for Android devices. It is also conducting a test toward the fully fledged introduction of an image recognition function that utilizes a deep learning technology, which will lead to improved productivity of purchase assessments and shipping processing. Through these initiatives, it is aiming to increase the number of members and improve profitability. It intends to increase the number of members from 188,000 people in FY6/22 to 250,000 people in FY6/23 and to 400,000 people in FY6/25, and it is aiming for further growth as the largest EC shop for trading card games.

**Number of members of EC site Card Shop - Yuyu-Tei**

	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
			Forecast	YoY	
Members	140,000	188,000	250,000	33.0%	400,000

Source: Prepared by FISCO from the Company's results briefing materials

The Company is also considering opening physical stores targeting business scale expansion. Because physical stores will be able to purchase trading cards directly from manufacturers, the Company expects that this will enhance the product lineup and increase sales opportunities. For the future, the Company is also looking into the possibility of producing card games related to the Group's educational content.

Outlook

#### (5) Insurance Business

In the Insurance Business, the forecasts are for revenue to increase 198.4% YoY to ¥1,350mn and an operating loss of ¥140mn (a loss of ¥28mn in the previous period). Revenue will increase YoY due to the contributions over the full fiscal year, while against the backdrop of the increase in the number of contracts, the outlook is also for revenue to increase compared to in the same period in the previous fiscal year. The operating loss is forecast to contract compared to in the same period in the previous fiscal year. Initiatives such as the introduction of a system to improve management efficiency will lead to improved productivity, and the plan is for this business to become profitable on a monthly basis during FY6/24.

#### (6) Incubation & Investment Business

In the Incubation & Investment Business, the forecasts are for revenue to increase 166.1% YoY to ¥550mn and an operating loss of ¥210mn (a loss of ¥866mn in the previous period). For revenue, contributions are expected from the revenue of *Gyaku Propo* and the newly launched services derived from *Gyaku Propo* (Concierge, Tour, and Learning), while in addition a new service that utilizes the Company's expertise in M&A is also expected to contribute. In profits, the loss will continue, but upfront costs will decline and the temporary costs will end, so the amount of the loss is forecast to contract.

Since the launch of the *Gyaku Propo* service in November 2020, due the improvement in its name awareness, the number of companies conducting public fund raising and the number of participating local governments have been steadily increasing. In FY6/23, the forecasts are for the number of completed matching contracts to increase by 9 YoY to 15 contracts, and for the number of contracted projects as a result of the matching to be unchanged YoY at around 3 contracts. Projects in which the Group collaborates with companies and local governments to work on solving social issues are expected to increase in the future as well, so the Company is aiming to further strengthen *Gyaku Propo* as a matching platform, to increase the number of completed matching contracts to 30 and the number of contracted projects as a result of matching to 30 in FY6/25, and the number of regional public entities conducting matching to 100 entities (total number).

#### Track record of matching through *Gyaku Propo* and forecast

	FY6/21 Results	FY6/22 Results	FY6/23		FY6/25 Forecast
			Forecast	YoY	
Number of matches	2 projects	6 projects	15 projects	An increase of 9	30 projects
Number of matched local public entities (total)	4 entities	5 entities	15 entities	An increase of 10 entities	100 entities
Development projects stemming from matching	1 project	3 projects	3 projects	Unchanged YoY	30 projects

Source: Prepared by FISCO from the Company's results briefing materials

#### *Gyaku Propo's* main projects

Companies conducting public fund raising	Local governments	Project
WirelessGate Inc.	Hirakata City	Progressing DX for the matching of Kids Café and food donations
WirelessGate Inc.	Ikoma City	Promoting DX for a child-raising support business
DoctorMate Inc.	Kitakyusyu City	Established a nighttime emergency transport model for nursing care facilities
E.design Insurance Co., Ltd.	Kobe City, Iwata City, Hirakata City	Building a new value creation mechanism "to realize a safer traffic environment and society"
SOCIALX, INC.	Hino Town, Shiga Prefecture	Appointment system for vaccinations, etc.
Souple social experiment unit	Toyota City, Hirakata City	Solving "local traffic issues" through entertainment and design
KIMURA UNITY CO., LTD.	Hirakata City	Enhancing operations to help mitigate damage in the event of a disaster

Source: Prepared by FISCO from *Gyaku Propo* website

#### Outlook

As a recent topic, in April 2022 the Company launched *Gyaku Propo Concierge* as a service derived from *Gyaku Propo*. For public sector-private sector collaborations, the responsible concierge will listen to the problems facing local governments and guide them to resolve their problems by connecting them with information on companies that are actively working to solve problems\*. Compared to when local governments themselves set up an organization, such as a public sector-private sector collaboration division, it can cut costs from 1/20 to 1/50. It has already started to create a track record in this area, including that in July 2022, Iwata City, Shizuoka Prefecture, outsourced to it coordination work for the Iwata City Metropolitan Area Collaboration project.

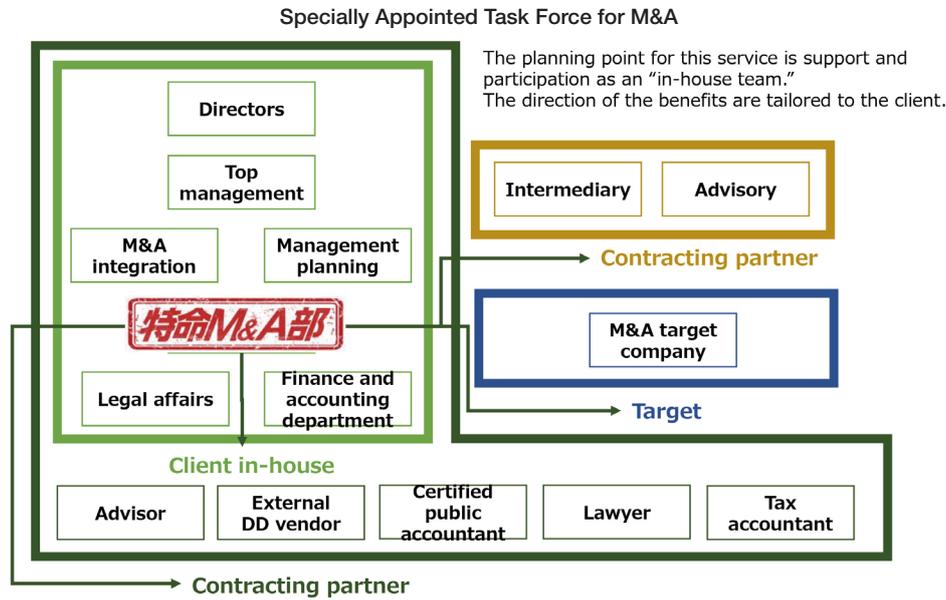
\* Two of the representative directors of SOCIALX work as mentors at the Toranomon Hills Incubation Center ARCH, and they communicate information to the new business development departments of the 100 large companies that gather at the center, providing real connections to companies, such as on project design.

Also, *Gyaku Propo Learning*, which was launched in May 2022, is a corporate training service to learn expertise in order to use and promote the new method of “public sector-private sector co-creation” for the social issue solutions-type new business development that companies are working on. There has been requests from customer companies involved with *Gyaku Propo* so far, that “We want to conduct training widely not only for the persons in charge, but also for the management team and the planning department,” and this service is in response to this request. *Gyaku Propo Tour*, which was launched in June of the same year, is a service for social issue solving-type new business development in response to requests from companies that have held discussions with local governments familiar with social issues and that want to apply “our company’s strengths” to social issues, and to increase the degree of image resolution while observing actual sites. It is also in response to requests from local governments, of “We want to be introduced to companies who can find issues and appeal points that we are not aware of” and “We want to solve social issues with the help of companies.” By participating in *Gyaku Propo Tour*, the aims are to achieve co-creation with local governments from the planning stage and to perform the subsequent stages up to the demonstration experiment quickly and smoothly.

As an M&A support service, in June 2022 the Company started a co-creation M&A advisory business. There are many companies that want to progress an M&A strategy but that do not have expertise in M&A in-house to be able to conduct one. For these companies, the Group is not merely an intermediary but also provides support for M&A from the standpoint of being an advisor and a co-creation partner. It is an advisory service in which the fees are completely success-based, and there are cases of joint-investment based on the co-creation philosophy, support for the construction of equity stories through IR consulting, and funding support through companies’ own management funds, and in such ways the Group is providing various services tailored to meet customer needs.

Moreover, in July 2022, the Company launched the “Specially Appointed Task Force for M&A,” which is a practical support-type M&A promotion service. For companies that do not have in-house members with an abundance of experience or who are very busy with other work so have no time to take part in M&A work, the Company dispatches a specialist M&A team comprised of members with an abundance of experience in M&A who provide support from strategy planning through to closing and PMI. It can be said to be an M&A-related BPO service. It seems there have been many inquiries for it from medium-sized companies and venture companies, and it is expected to contribute to revenue in the future. The Company’s M&A business department currently has a structure of 7 or 8 employees and it is anticipated that it will strengthen this structure while observing conditions.

Outlook



## Has planted the seeds for growth toward achieving the mid-term management targets, and going forward, is aiming to accelerate earnings growth while developing

### 2. Status of progress of the Mid-term management plan

In the Company's COMMIT5000 mid-term management plan running up to 2030 which it announced in August 2019, the basic policy is to utilize the Company's strengths, which are its three capabilities of “ability to determine real issues” (the value creation support business), “ability to discover the hidden value of resources,” (the IT/AI/IoT-related business), and “ability to maximize value by proposing and executing the optimal combination of issues and resources,” (the social issue-solving business), and the strategy is to aim for mid- to long-term growth while linking these capabilities together. In terms of numerical targets, the Company projects revenue of ¥100bn and operating profit of ¥10bn for FY6/25, while it projects revenue of ¥500bn and operating profit of ¥50bn in FY6/30.

The Company's aim is to grow and deepen existing businesses through its growth model of working with joint-development partners to build “models” for “value creation management support + DX support” and then horizontally developing this model. In addition, the Company's strategy is to accelerate growth by proactively advancing M&A as well as new business development. In addition, growth factors will be the acquisitions of capital gains from the investment fund and the accumulation of recurring-type income from building IT systems for the companies it invests in and the provision of various services.

The Company is positioning the provision of services to local governments lagging behind in DX as a growth field, and plans to accumulate orders while building a network through *Gyaku Propo*. The Company has deployed the digital ID solutions using My Number Card that it is advancing jointly with xID Inc. to help make government services more sophisticated, and introduced workation and other initiatives to help revitalize regional areas and encourage population inflows to them.

#### Outlook

As a new initiative, the Company is working on developing new healthcare services through joint planning and co-creation with a pharmaceutical company and a non-life insurance company, with the aim of building the Smart Healthcare Platform. It is currently at the demonstration experiment stage, and plans to provide service moving forward. By bringing together each company's resources in advancing the project and collecting personal health records (PHRs), the Company's goal is to establish a value-generating platform for developing and providing optimal personalized healthcare services that is not tied to a particular industry.

COVID-19 has also had an impact, and although the progress made up to FY6/22 was slower than initially planned, the Company has planted the seeds for new socially significant businesses. From FY6/23 onwards, in addition to the Company's strengths, it will provide the necessary resources, and moreover Group synergies will lead to the maximization of effects. It reviews the order of priority of the businesses at any time to achieve growth in the medium- to long-term. It is aiming to achieve the targets in the mid-term management plan by expanding the new business areas and by rapid management decision making on selection and concentration.

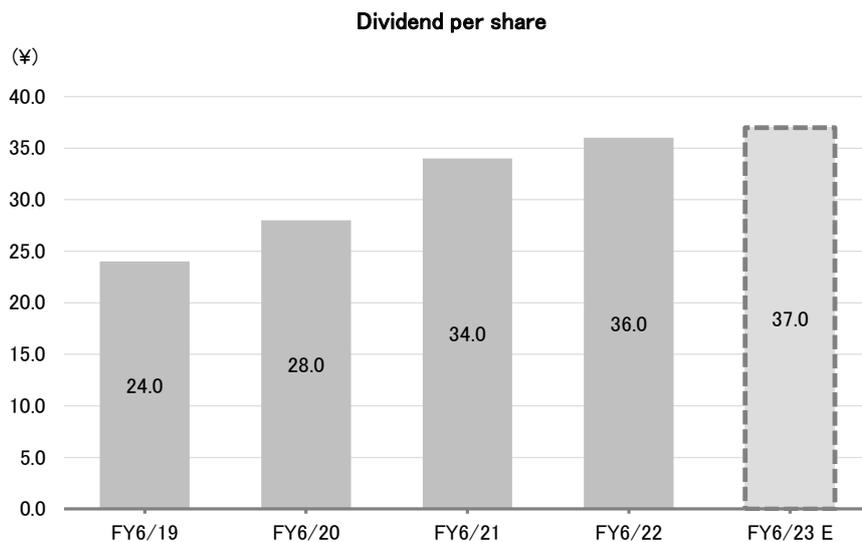
In FY6/23, revenue is forecast to grow considerably from the full fiscal year contributions of the subsidiaries acquired in the previous period, while revenue is expected to increase in the existing businesses as well. The plan is for the effects of the creation of new businesses and co-creation projects through *Gyaku Propo*, the business partnerships, the M&A, and other initiatives to become apparent in the results. In the future, in addition to new orders of co-creation projects, the strategy is to accelerate growth through the horizontal development of the co-creation projects it has worked on so far. If it makes steady progress with these initiatives, earnings are expected to enter a high-growth stage.

## Shareholder return policy

### Proactive about returns to shareholders, and planning to pay higher dividends for the 14th consecutive period in FY6/23

The Company's basic shareholder return policy is to stably and continuously pay dividends while also securing the internal reserves necessary to strengthen its financial structure and to develop its businesses in the future, and it aims to continually increase dividends under this policy. Even though it recorded a loss in FY6/22, in consideration of returning profits from past investments and growth in the future, it increased the dividend per share by ¥2.0 YoY to ¥36.0, the 13th consecutive period it has increased the dividend. For FY6/23 as well, it plans to increase the dividend by ¥1.0 to ¥37.0 (for a dividend payout ratio of 96.0%). In the medium term, its policy is to increase profits and seemingly to keep the dividend payout ratio at a level below 50%, while continuing to increase the dividend.

The Company has also been acquiring treasury shares in order to improve capital efficiency and so that it can implement a flexible capital policy in response to its business environment. From May to August 2022, it acquired 400,000 shares (2.26% of the total number of issued shares (excluding treasury shares)) for around ¥300mn.



Source: Prepared by FISCO from the Company's financial results



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